

A

Groundwork of Book-keeping

(Specially intended for High School and College Classes)

BY

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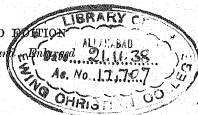
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SECOND EDITION

Revised and Enlarged



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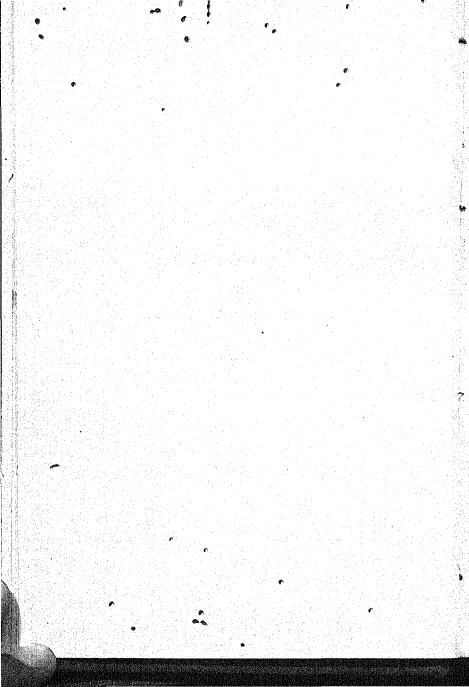
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IN LOVING MEMORY
OF
MY AFFECTIONATE DAUGHTER

'Susan'



PREFACE.

No apology is perhaps needed to add yet one more volume to the existing number of books on Book-keeping. There are no doubt masterly books written by learned men like Messrs. Carter, Spicer and Pegler, Batliboi, and many others, but a number of them have, it seems designed their books for students who have got a fair knowledge of the elementary principles, and it is for this reason that there is as yet no good book available in the market which can meet all the requirements of a beginner.

As a teacher of "Book-keeping" for the last ten years, I have had frequent opportunities of seeing what a *bugbear* this easy subject has become for the students reading in High School and even in College Classes. It is my experience that for want of a suitable elementary book which will serve the purpose of the students, many a student has to rely solely on cramming, the dead weight to reasonable understanding; and hence it is no wonder if they are always nervous of this subject.

It is with a view to remove this difficulty that an effort has been made to be of service to the student world. In this book the point chiefly borne in mind is the most natural and easy way of presenting the subject. It is for this reason that the opening of subsidiary books has been left to the later stage till the student has thoroughly grasped the principles, particularly of journalising. •

In this book not only a large number of exercises has been given but also they have been arranged and graded to suit the needs of the students. Besides, a number of test questions and examination papers have been added with a view to help the students in their preparations.

This book has been designed for the High School Classes as well as for the students reading in the first year of the Intermediate in Commerce Class and can very well be used by those who are appearing for other examinations like the London Chamber of Commerce, Government departmental examinations etc. It is hoped that the present elementary volume which the author has ventured to place before the public will be found useful by teachers and students and will supply a long felt want. The author will deem it a great favour if helped with suggestions as well as criticisms for its improvements.

In the end he has great pleasure to acknowledge his indebtedness to his colleagues particularly Pandit Recti Saran B. Com. as well as his students who have helped him in various ways. Messrs. G. R. Bhargava and Sons deserve his thanks particularly for the promptness with which they have got this book printed and published in the short time at their disposal.

The Author.

PREFACE TO THE SECOND EDITION.

In issuing this revised and enlarged edition opportunity has been taken to make it as complete and comprehensive as possible in the light of the suggestions received. At several places the matter has been rewritten and even the arrangement of the chapters has been changed to make the book more suitable. A number of select exercises has been added, and besides a large number of typical questions from the various examination papers are given at the end of the book under the section 'Supplementary Exercises'. The latest question papers of the High School and Intermediate Boards of the United Provinces and Rajputana have also been appended to indicate the standard. A glossary of important Book-keeping terms has also been added for ready reference. In short, no pains have been spared to make this little volume useful by making such improvements as have been deemed necessary.

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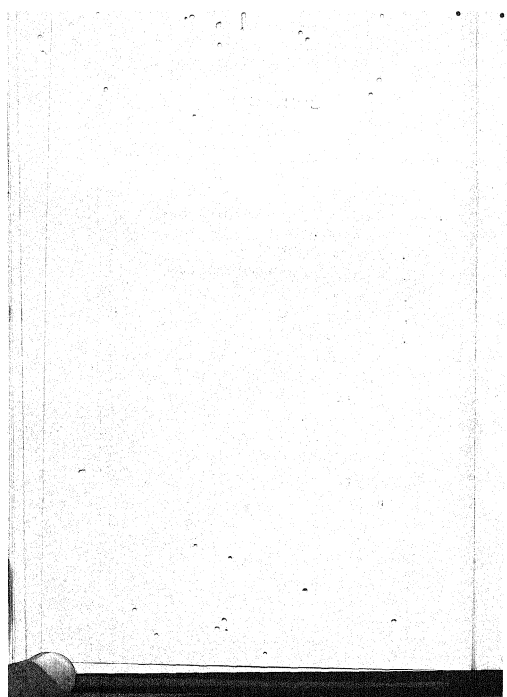
13th April, 1933.

AUTHOR



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A Groundwork of Book-keeping.

CHAPTER 1.

Book-keeping upto the Trial Balance—Journal.

The evolution of large scale business has made the word Book-keeping quite familiar to our ears but even then very few have got the correct notion regarding the same. It is both a science and art of systematically and correctly writing in the account books all the business transactions involving transfer of money or money's worth. Systematic book-keeping enables us to find out accurately the result of the business transactions during any period chosen by us and shows us our financial position at any time clearly and accurately.

This is not a new art and is traced even to ancient times. **Lucas Pacioli**, a Franciscan monk published his book on book-keeping, '*De compas et Scripturis*' in the year 1494 or 1495. Memorandum or waste book, ledger and journal are the books mentioned by him for use. *Hugh Oldcastle* translated this book in English and published it in London in 1543. Edward Jones wrote his book in 1795 styled 'English System of Book-keeping,' and improved upon the old books by adding one more column to the journal as formerly

only one column was there and by introducing Trial Balance and Bought and Sold books. With a few additions such as the Company Accounts, Self-Balancing Ledger system, Double Account system etc. we have the present science of book-keeping. As the merchants of Venice, Genoa and other towns of Italy were the first known people to use this Double Entry System of Book-keeping it is often called the **'Italian system'**.

Account books kept on the systematic basis will enable a merchant to profit by the following information:--

- (1) How much money and stock of goods he has got ?
- (2) What amount he owes to others and what amount others owe him ?
- (3) Whether he is gaining or losing if so in what manner ?
- (4) Whether he is solvent or insolvent ?

In addition to the advantage of getting the above information, the account books help him in the Courts of Law to prove the transaction.

The current system of book-keeping is what is known as the **Double Entry** Book-keeping as distinguished from the old and defective system known as the **Single Entry** Book-keeping. In the latter system classified information of the accounts only of persons

is kept and not of those concerning impersonal accounts such as goods, wages, etc.

Before taking up the study of the system it is necessary to understand properly the meaning of some technical words:--

An Account---It is a record in a ledger of the various transactions that have taken place with a person or concerning a thing, such as Rama's a/c. Goods a/c, etc. It is divided into two sides, technically known as the debit and credit sides. The debit side is on the left hand and the credit side on the right. The former records the advantages received by the party or the additions of purchases of things while the credit side shows the benefits given by the person or reductions in the things. The usual ruling is as under:--

Dr.				Cr.			
RAMA							
Date.	Particulars.	Folio.	Amount	Date.	Particulars.	Folio.	Amount
Jan. 5	To Goods	5	500 0 0	Jan. 22	By cash	13	300 0 0

Debit and Credit---By the Debit side is meant the left hand side of a ledger account and by the credit side the right hand side. When therefore we say that we debit an account we mean that we make an entry on the left side, and when we credit an account we write the entry on the right hand side.

The waste Book, Rough Book or Memorandum Book—It is a book in which pecuniary transactions are written in chronological order irrespective of its importance or nature. It was formerly in vogue but it is now rarely used except in some banks. The following is the specimen of the waste book of Mr. Anandi Persad, Trader, Lucknow:—

June 1. Started business with Rs. 20000 as capital.
 June 5. Purchased goods of Rs. 1000.
 June 7. Sold goods Rs. 1500.

Journal—The Journal or Daily Record or Daily Register as it is called is an account book in which transactions are written from the Waste Book in order of date and in a classified form for the sake of transferring them to the ledger. It was formerly the only book of original entry but its importance is much reduced by the introduction of other books such as Cash Book Sales and Bought Books, and Bill Books etc.

Journal.

Date.	Particulars.	Fol o.	Dr. Rs.	Cr. Rs.
1928 Jan. 15	Rama Dr.		100 0 0	
	To Goods. ...			100 0 0
	(For goods sold to Rama)			

The debit and credit columns facilitate the writing of the entries in the ledger accounts to the debit or credit side as the case may be.

Narration—It is an explanation of the entry in the journal and is given just below the journal entry vide the remark '*For goods sold to Rama*' after the above journal entry.

Ledger is a book of very great importance and contains a large number of accounts. In this are opened the various accounts and all the items relating to each account are collected into it. The number of ledgers maintained in the business depends upon its size and the system of book-keeping.

Double Entry.

Meaning—It is the only system of importance and takes its name from the fact that the amount of each transaction is entered twice, at one place to the debit of an account and in the other to the credit of some other account. It does neither make two separate transactions nor it duplicates the work but it simply makes one debtor and one creditor for one and the same transaction. For instance when goods are sold to Rama Rama is made debtor and goods account creditor. This simple point is very often misunderstood and so Double Entry is often explained wrongly by students as 'doing the work twice over'. This system is very accurate and perfect. It is the system that is in vogue in all the important business houses of today.

Principles---These are very important as it is on these that the whole system has been built up and are three in number:---

- (a) Every transaction that takes place in business must have two sides, one *Receiving* and the other *Giving*. It is not possible to have receiving without giving. There must be some one to give and some one to receive as one cannot exist without the other.
- (b) As there is a twofold aspect of the same transaction there must be a twofold entry in order to complete the record. It means in other words that for each debit there must be a corresponding credit and vice versa.
- (c) The giving and taking or the debit and the credit is between accounts in the same set of books and not in the different ones.

Rules---These are the regulations or laws in vogue framed by the inventors of the system or formed by the current practices prevalent. For the sake of uniformity they are considered binding by all. In the English system there are four important rules:---

- (a) In general the books in use are three, the Memorandum or the Waste Book, the Journal and the Ledger. The first, however, is not much in practice.
- (b) The left hand side of each account is called the debit side and the right hand the credit side.

- (c) In the ledger accounts "To" is prefixed to the entries on the debit (left) side and 'By' to those on the credit (right) one.
- (d) The account which receives anything is called Debtor. (Dr.) and the one that gives Creditor (Cr.).

Rules (b), (c) and (d) are as a matter of fact made for convenience. It will not much matter if the debit side is kept on the right hand or 'By' is prefixed to items on the debit side, or the receiver is called a creditor but only if all agree on the point. But if one puts debit items on the left and the other on the right it will create a good deal of confusion and there will be a dreadful muddle.

Theory--Any business transaction that takes place necessarily involves two sides and presents a twofold aspect. For every giving there must be taking and vice versa. This will necessarily mean recording the same transaction in the same set of books on two sides, the debit and the credit. It therefore establishes the important fact that for every debit there must be a corresponding credit and vice versa. Suppose for instance that we are to record the transaction 'Paid in cash Rs. 50 to Krishna', we will have to debit Krishna and credit Cash account for the same. In this case Krishna has received the benefit and the same is given by the Cash account. Under this system it is not possible to think of one aspect without the other.

Advantages—As this is a most perfect and accurate system of book-keeping it has got many advantages of which the following are important:--

- (a) As this system takes into account the double aspect of every transaction accuracy of the books can be tested by the preparation of a Trial Balance. (T. B.)
- (b) Profit and Loss account and Balance Sheet can be independently prepared and the accuracy of the figures of the Capital account balance and the Balance Sheet is tested because the capital account balance in the Balance Sheet must tally with the figure of the capital account in the ledger.
- (c) There is a complete record of transactions as this system takes into account not only the personal accounts but impersonal ones also.
- (d) As there are all the impersonal accounts a detailed Profit and Loss account can be prepared and much reliable and important information can be got.
- (e) It is a very accurate and efficient system and so there will be few loopholes for fraud.

As already explained in general there are three books in use:—

- (1) The Memorandum or the Waste Book,
- (2) The Journal.
- (3) The Ledger.

The Waste book is generally not maintained these days and even most of the journal entries are superseded by a number of subsidiary books (e. g. the Purchases Book, the Sales Book, Bill Books, etc.) to avoid the bulk of the book and also to simplify the work. The third book used is the ledger and will be dealt with in the second chapter.

Journal.

Though the use of a journal is superseded by the subsidiary books in many places, yet there are a number of countries, Spain, France, Italy and parts of Germany and Austria where the use of Journal is compulsory as per the *Code of Napoleon*.

Theory of Journalising---According to the principles of Doubly Entry every transaction has two aspects, the receiving and the giving. Take for instance the case of a firm lending money to Vishnu Datt then Vishnu Datt is receiving it and cash is given. Similarly if the same firm buys furniture, furniture is received and cash is given. In short in any case we can split up the transaction into two parts the debit and the credit, the former being equivalent to receiving and the latter to giving. In the account books the person

receiving the benefit or the thing received is made debtor and is entered in the Dr. column and the person giving the benefit or the thing going out is made creditor and is therefore entered in the Cr. column.

The following rules will be of great help to a beginner in journalising the various types of transactions:--

- (a) What comes in is to be debited and what goes out is to be credited e. g. Rs. 50 received for coffee sold.

Cash account Dr. ... Rs. 50.

To Coffee account. ... Rs. 50.

- (b) In each transaction there are two things involved and when one is debited the second is naturally credited and vice versa. Rent paid Rs. 100. Cash goes out therefore:--

Rent account Dr. Rs. 100.

To Cash account ... Rs. 100.

- (c) The account which gives the benefit is to be credited and the one that receives is to be debited. A loan of Rs. 200 given to Rama then :—

Rama ... Dr. Rs. 200

To Cash account ... Rs. 200

- (d) *Losses to be debited and gains, - be credited.
Paid trade expenses Rs. 25, and received a
commission of Rs. 100 then---

Trade Exps. account ...	Dr. Rs. 25	
To Cash	...	Rs. 25.

In the case of commission it is a gain
and so---

Cash account ...	Dr. Rs. 100
To Commission. ...	Rs. 100

Few hints on journalising:---

(1) Whenever a new business is started the amount brought in by the owner is not credited to his personal account opened in his name but to an account called 'Capital' account and subsequent additions to and withdrawals from are also similarly treated through the same account e.g. Rama starts his business with Rs. 1000, then the entry will be

Cash account ...	Dr. Rs. 1000
To Capital account	... Rs. 1000.
<i>and not</i>	
Cash account ...	Dr. Rs. 1000
To Rama	... Rs. 1000.

The same principle will apply when there is a partnership firm. In this case instead of one individual proprietor there are more persons who join hands with a view to share profits according to their agreement. In this case each partner brings his share of capital

and it is credited to his capital account. When there is one man's capital there is no necessity of prefixing his name to his capital account, but when there are several owners, the capital account of each must be distinguished from that of others by adding his name to it, e. g. Rama's Capital account, B's Capital account and so on. At the end of the year when the profit is ascertained the share of every partner is added to his capital account and drawings are deducted.

In the case of a company (which is an association of individuals for profit) the capital account shows in total the contribution of all the shareholders. To this account the balance Profit and Loss account is not transferred at the end of the period but each shareholder is given a share of profit and the balance of P. & L. account appears in the Balance sheet.

(2) Sometimes at the time of opening a new business instead of bringing in cash, goods are brought in. In such a case the accounts of the things brought in are debited and the capital account is credited. e. g. Rama starts his business with Rs. 5000 worth of wheat then:---

Wheat account	Dr.	Rs. 5000.	
To Capital account	...		Rs. 5000.

(3) When the goods are bought or sold and the name of the person to whom sold or from whom bought is given and it is not told that it is a cash transaction it is to be taken as a credit one (Vide entry dated the 11th Jan., 1928 in the following example.)

(4) A thin line generally in red ink is drawn after each transaction up to the folio column and the narration for the entry is written below the entry. Generally narration is neither given for each entry nor it is necessary, but it is given in the case of difficult or confusing entries only.

The following entries in the journal from the Memorandum Book given below will help in understanding the rules given above:---

Memorandum or Waste Book of Beni Prasad.

1928.			
Jan.	1	He starts his shop with	Rs. 8000
"	5	He purchases goods	" 3000
"	8	He sells goods	" 1000
"	9	He lends to Rama	" 500
"	11	He sells goods to Sarju Pd.	" 300
"	13	He pays wages	" 25
"	15	Sarju Pd. returns goods being of bad quality	" 100
"	17	He borrows from Gulab Sing	" 1000
"	17	He pays into the bank	" 2000
"	19	He purchases goods and pays cartage	" 2000 " 100
"	23	He withdraws from the bank	" 1000
"	25	He sells goods to Shambhu Nath	" 1500
"	27	Receives from Sarju Pd.	" 200
"	31	He pays rent	" 100
"	"	" wages	" 300

Journal.

Date.		Particulars.	Led. Folio.	Dr. Rs.	Cr. Rs.
1928.					
Jan.	1	Cash a/c ... Dr. To Capital a/c.		8000	
"	5	Goods a/c ... Dr. To Cash a/c.		3000	8000
"	8	Cash a/c ... Dr. To Goods a/c.		1000	3000
"	9	Rama ... Dr. To Cash a/c.		500	1000
"	11	Sarju Parshad... Dr. To Goods a/c.		300	500
"	13	Wages a/c ... Dr. To Cash a/c.		25	300
"	15	Goods ... Dr. To Sarju Pd.		100	25
"	17	Cash a/c ... Dr. To Gulab Sing		1000	100
"	"	Bank a/c ... Dr. To Cash a/c.		2000	1000
"	19	Goods a/c ... Dr. To Cash a/c.		2000	2000
"	"	Cartage a/c ... Dr. To Cash a/c.		100	100
"	23	Cash a/c ... Dr. To Bank a/c.		1000	1000
"	25	Shambhu Nath... Dr. To Goods a/c.		1500	1500
"	27	Cash a/c ... Dr. To Sarju Pd.		200	200
"	31	Rent a/c ... Dr. To Cash a/c.		100	100
"	"	Wages a/c ... Dr. To Cash a/c.		300	300
				21125	21125

EXERCISE 1.

Journalise the following exercises:--

(1) January 1. Mr. Ramchandra started his business as a wheat merchant by putting in Rs. 5000 as his capital.

January 5. He purchased wheat of Rs. 700 and furniture for his shop of Rs. 800.

January 10. He sold wheat for Rs. 800.

January 15. He borrowed Rs. 400 from Mr. Jackson and purchased wheat of Rs. 200.

January 21. He sold his wheat for Rs. 250 and lent the whole sum to Mr. Lalta Prasad.

January 31. He paid wages Rs. 130.

(2) Feb. 1. Mr. Albert started his business as a Timber Merchant with a capital of Rs. 4500.

Feb. 5. He borrowed from Mr. Sams Rs. 800. and purchased timber for Rs. 3000.

Feb. 9. Mr. Ram borrowed from him Rs. 300.

Feb. 12. He sold timber of Rs. 3700.

Feb. 18. He sold timber to Ram for Rs. 700.

Feb. 21. Ram Paid him Rs. 1000.

Feb. 23. Ram returned timber of Rs. 200.

Feb. 28. He paid rent Rs. 25 and wages Rs. 100.

(3) March 1. Mr. Jones started his shop of tea and coffee with the initial capital Rs. 1500.

March 5. He purchased tea and coffee of Rs. 700. and Rs. 500 respectively.

March. 8. He sold on credit coffee of Rs. 75 to Messrs. R. & Co.

March 10. He borrowed Rs. 200 from Mrs. Sams and Rs. 300. from Mr. James.

March 12. Messrs. R & Co., paid him the dues.

March 19. Mr. Scott took a loan of Rs. 100 from him.

March. 27. He sold tea of Rs. 80 to Mr. Raman.

March. 31. He paid rent Rs. 100 wages Rs. 80. Cash sales during the month coffee Rs. 500 tea Rs. 400.

(4) April 1. Anant opened his book-shop with books worth Rs. 1000.

April 5. He sold books for Rs. 600.

April 9. He sold books for Rs. 100 to Arthur.

April 12. He purchased books of Rs. 500 from Govind and paid him Rs. 200 as part payment.

April 16. He borrowed from Basantilal Rs. 200 and paid Rs. 100 to Govind.

April 19. Sadan took a loan of Rs. 100 from him.

April 22. He sold books for Rs. 200.

April 30. He paid wages Rs. 40 rent Rs. 80. He paid the balance due to Govind and half the dues of Basantilal.

(5) May 1. Shiv Persad started his cloth shop with Rs. 2000 worth of cloth and Rs. 1000 in cash.

May 5. He sold cloth of Rs. 950 to Ram and paid Rs. 100 to Nathulal.

May 8. He purchased cloth of Rs. 1200 from Swarup Narain.

May 10 He paid Rs. 700 into his Bank.

May 12. he received from Ram his dues which he paid to Swarup Narain.

May 15. He purchased cloth of Rs. 300.

May 17. He sold cloth of Rs. 910.

May 20. He paid wages Rs. 15 and postage Rs. 2.

May 23. He purchased cloth from Ruplal of Rs. 1300.

May 25. He returned to Ruplal cloth Rs. 300 and paid Rs. 800 as part payment.

May 28. He borrowed from Sri Ram Rs. 200. and lent the money to Gopal.

May 31. He sold cloth of Rs. 800. He paid wages Rs. 30, salaries Rs. 100, and rent Rs. 250.

(6) June 1. Keshav started his wheat shop with Rs. 2500 as his capital.

June 3. He purchased on credit wheat of Rs. 800 from Ram and paid cartage Rs. 8.

June. 5. He gave a loan of Rs. 250 to Shib Dass.

June. 7. He paid into his bank Rs. 1500.

June. 9. Shanker purchased wheat from him for Rs. 500.

June 11. He received Rs. 400 from Shanker.

June 15. He paid into Bank Rs. 300.

June 19. He purchased wheat of Rs. 700 from Ram.

June 21. He returned wheat of Rs. 100 to Ram as being of inferior type.

June 25. He drew from Bank Rs. 300 and paid the same to Ram.

June 30. He paid wages Rs. 50 Rent Rs. 60,

(7) July 1. Rosemand of Liverpool starts his business as a bookseller with £ 1500 in cash.

July 3. He sent £ 500 to the Bank.

July 5. He purchased books of £ 800 from Sams.

July 8. He sold books of £ 250 to Messrs. R. & Co. taking half the amount in cash.

July 10. He drew from the Bank £ 100 and paid Sams £ 300.

July 15. He purchased books of £ 320 from Albert and paid cartage £ 0/10/- and Rly. freight £ 0/5/-.

July 20. He sold books of £ 405 and sent £ 200 to Bank.

July 25. He received from Messrs. R. & Co. £ 150.

July 31. He paid rent £ 5, Salaries £ 20.

(8) Aug. 1. Mr. Womesh kept Rs. 1500 in his bank to serve him as his capital.

Aug. 5. He purchased chairs of Rs. 350 and tables Rs. 500 from Lalta Prasad.

Aug. 7. He sold to Kirshna tables of Rs. 300.

Aug. 9. He drew from his Bank Rs. 800.

Aug. 12. He received Rs. 200 from Krishna.

Aug. 13. He purchased tables of Rs. 250.

Aug. 14. He sold chairs of Rs. 200.

Aug. 16. He borrowed from Shib Persad Rs. 350.

Aug. 23. He paid Rs.10 to his carpenter as his wages and Rs. 5 for cartage.

Aug. 25. He sold chairs of Rs. 100 to Gopal.

Aug. 28. Gopal returned chairs of Rs. 20.

Aug. 31. He paid rent Rs. 30.

(9) Sept. 1. Mahesh started his Timber shop and put in Rs. 4000 as his capital.

Sept. 3. He purchased timber of Rs. 3000 from Sadashiv and of Rs. 2000 for cash.

Sept. 4. He returned to Sadashiv timber of Rs. 500 being of inferior quality.

Sept. 6. He sold timber of Rs. 300 and paid it to Sadashiv as part payment.

Sept. 9. He pays Rs. 200 to Ramjimal as loan.

Sept. 12. He received Rs. 500 as the price of the timber sold.

Sept. 18. He purchased timber of Rs. 1500 from Prem Sahai.

Sept. 21. He paid Rs. 50 as rent and Rs. 200 as railway freight.

Sept. 25. He deposited Rs. 300 in the bank.

Sept. 28. He paid Rs. 1200 to Sadashiv.

Sept. 30. He paid salary to his staff amounting to Rs. 80 and rent Rs. 85.

(10) Oct. 1. Jacob opened his cycle shop with the capital of £ 150 and cycles worth £ 120.

Oct. 5. He sold to Edwards & Co. cycles of £ 30 and receives £ 15 as part payment.

Oct. 8. He purchased cycles of £ 50 and pays £ 2 as railway freight and Sh. 10 as taxes.

Oct. 12. He purchased from Jones Bros. cycles of £ 40 and paid £ 15 as part payment.

Oct. 15. He paid shop rent £ 2 and salary £ 10.

Oct. 18. He sold to Robertson & Co. cycles of £ 80.

Oct. 20. Cycles of £ 10 are returned by Robertson & Co.

Oct. 23. Robertson & Co. paid £ 35 which he lent to Thompson.

Oct. 25. Edwards & Co. paid the balance of their account.

Oct. 28. He sold cycles of £ 20.

Oct. 30. He paid wages £5, rent £2 and salary £10.

(11) On 1st Nov., Mr. Fakir Chand started his business with Rs. 5000 in cash.

Nov. 2. Paid into the bank Rs. 450.

Nov. 3. Purchased goods of Rs. 1800 for cash and of Rs. 750 on credit from Sita Ram.

Nov. 5. Paid coolie hire Rs. 2/8.

Nov. 8. Sold goods to Raman for Rs. 1315.

Nov. 9. Raman paid Rs. 940 by way of part payment.

Nov. 14. Purchased goods of Rs. 3200 on credit from Messrs. Rao. & Sons.

Nov. 17. Paid Rs. 500 to Sita Ram.

Nov. 19. Paid Messrs. Rao. & Sons, Rs. 1600.

Nov. 24. Paid rent Rs. 35 and Rs. 15/8 for electric charges.

Nov. 27. Received Rs. 200 from Raman but the whole amount was paid to Messrs. Rao & Sons.

Nov. 30. Paid salaries to clerks Rs. 290 and cartage Rs. 12.

(12) On 1st. Dec. Mr. Lalaji started his business with Rs. 2800. in cash.

4th. Dec. Purchased goods of Rs. 1700 on cash payment and of Rs. 900 on credit from Goda Singh.

6th. Dec. Sold goods of Rs. 580.

7th. Dec. Ram Swarup bought goods of Rs. 420 on credit and two days after paid Rs. 120 as part payment.

10th. Dec. Paid wages Rs. 12 and rent Rs. 45.

15th. Dec. Paid Rs. 380 to Goda Singh.

17th. Dec. Purchased from Jamuna Dass goods of Rs. 130.

22nd Dec. Paid for postage Rs. 7/8/- and Rs. 2/8/- for telegrams.

25th. Dec. Ram Swarup paid his balance due and the whole amount is paid into the bank.

28th. Dec. Sold goods of Rs. 180 and banked the money.

31st Dec. Paid Salaries Rs. 430 and wages 75.

CHAPTER II.

Book-keeping upto Trial Balance (continued.)

Ledger and Trial Balance.

In the previous chapter and the exercises given therein no mention was made of entries requiring a combination of few items. Of course they can be passed singly but a combination will be better. Suppose we have to pass an entry for Rs. 95 received from Shib Pershad and Rs. 5 discount allowed to him. In this case we can pass two entries as follows:—

Cash	Dr. 95 0 0	
To Shib Pershad.		95 0 0
Discount	Dr. 5 0 0	
To Shib Pershad.		5 0 0

In this case we can combine both the entries into one as Shiv Pershad account is to be credited in both the cases. The combined entry will be:—

Sundries		
Cash	Dr. 95 0 0	
Discount	Dr. 5 0 0	
To Shiv Pershad		100 0 0

It should be noted that when there are more items than one the word 'Sundries' is made use of as in the above case.

Opening entry in the Journal offers some difficulty to a novice. At the time of passing an opening entry when a number of assets are to be taken into

account and so also a number of liabilities, the entry is passed by debiting all the assets and crediting all the liabilities and the difference is adjusted by introducing the Capital account if not already given. e.g. Robertson finds his state of affairs on 1st Jan., 1928 as follows:-

Cash Rs. 3500, Debtors Rs. 7000, Goods on hand Rs. 3000. He has to pay Rs. 5500 to his creditors, and his capital is Rs. 8000. The entry will be:-

Sundries:-

Cash	Dr.	3500	0	0
Debtors	"	7000	0	0
Goods	"	3000	0	0

To Sundries

Creditors		5500	0	0
Capital		8000	0	0
Rs.	13,500	0	0	Rs. 13,500 0 0

Sometimes the amount of capital is not given and in that case the excess of debit side over the credit side represents the same. It is also not uncommon to have the credit side greater than the debit side then there is an adjustment through goodwill account etc. This will be dealt with at a later stage.

Rama found the state of affairs on the 1st July, 1927 as follows:-

Cash Rs. 1350, Bank Rs. 1650, Goods on hand Rs. 4000 Debtors Rs. 2700; Creditors Rs. 5700. In this case the capital is not given and so it will have to be found out by finding the excess of one side over the

other which comes to Rs. 4000 and represents the amount of his capital. The entry therefore will be:—
Sundries:—

Cash	Dr.	1350	0	0
Bank	"	1650	0	0
Goods	"	4000	0	0
Debtors	"	2700	0	0

To Sundries

Creditors	5700	0	0
Capital	4000	0	0
Rs. 9700	0	0	Rs. 9700 0 0

When the business is a joint one, instead of there being one capital account there will be as many capital accounts as there are partners. Suppose in the above case there are two partners Rama and Shiv each having Rs. 2000 then instead of one capital account there will be two accounts, e.g.

Sundries:—

Cash	Dr.	1350
Bank	"	1650
Goods	"	4000
Debtors	"	2700

To Sundries

" Creditors	5700
" Rama's capital a/c.	2000
" Shiv's capital a/c.	2000
Rs. 9700	9700

Whenever a partner or a sole proprietor takes out some money or goods for his use, his personal

account is debited for the same. Instead of writing an account in his name it is called Drawings account and if there are partners, each partner has his drawings account separate e. g. Rama's Drawing account, Shiv's Drawing account and so on.

LEDGER

As has been already explained it is the principal account book in the double entry book-keeping, and perhaps it is for this reason that in French it is called the great book *le grand livre* and in German *Haupt-buch* the chief book. This contains in a summarised form all the transactions of a trader. It is also a very useful book of easy reference as in this we can find all the classified accounts. The size of the book depends upon the size of the business, the normal amount of transactions and the number of parties involved. Every page is numbered and is ruled as shown below:—

Dr.				RAMA.				Cr.			
Date.	Particulars.	Folio.	Amount.	Date.	Particulars.	Folio.	Amount.				
1928 Jan. 15	To Goods.		75 0 0	1928. Jan. 20	By Cash.		50 0 0				

Dr.				CAPITAL A/C.		Cr.	
				Jan. 1.	By Cash.		100 0 0

In the case of combined entries the word sundries will be written instead of writing two or more account heads.

Sundries

Cash	Dr.	95	0	0	
Discount	Dr.	5	0	0	
To Rama					100 0 0

In this case in Rama's account to the credit side will be written By Sundries, Rs. 100 and *not* both the account heads:—

By cash	95	0	0
By Discount	5	0	0

At the time of posting the opening entries 'To balance', or 'By balance' is written according as the item is on the Dr. or Cr. side. For instance when the goods account will be opened it will appear as:—

Dr.		GOODS A/C.		Cr.	
Jan. 1	To Balance	4000	0 0		

and not as 'To sundries' as would have been usually done.

Folioing—The pages of account books are numbered and when an entry is written from one book into

the other, for the sake of ready reference the folio number of the book from which the entry is written is also written in a column provided for the same and in that book the page of the book from which the entry is written. This act is known as marking folio references. When entries are posted from a journal to a ledger the folio of the journal is written in the ledger and that of the latter in the former in the folio column against the particular entry.

To facilitate posting and to avoid mistakes of posting on wrong sides it is better for a beginner to post the Dr. column first and then the Cr. column. This will be a good safe-guard for avoiding the debit side posting going on the credit side and vice versa.

The exercise journalised in chapter I when posted in the ledger will be as under:—

Dr.			CASH A/C.		Cr.	
Jan. 1	To Capital	8000	Jan, 5	By Goods		3000
8	„ Goods	1000	9	„ Rama		500
17	„ Gulabsing	1000	13	„ Wages		25
25	„ Bank	1000	17	„ Bank		2000
27	„ Sarju Pd.	200	19	„ Goods		2000
			„	„ Cartage		100
			31	„ Rent		100
			„	„ Wages		300

Dr.		CAPITAL ACCOUNT				Cr.	
				Jan, 1	By Cash		8000

Dr.		GOODS ACCOUNT				Cr.	
Jan, 5	To Cash	3000	Jan, 5	By Cash		1000	
" 15	" Sarju Pd.	100	" 11	" Sarju Pd.		300	
" 19	" Cash	2000	" 25	" Shambhu Nath		1500	

Dr.		RAMA				Cr.	
Jan. 9	To Cash	500					

Dr.		SARJU PARSHAD				Cr.	
Jan. 11	To Goods	300	Jan. 15	By Goods		100	
			" 27	" Cash		200	

Dr.		WAGES ACCOUNT				Cr.	
Jan 13	To Cash	25					
" 31	" "	300					

Dr.		GULAB SINGH				Cr.	
				Jan 17	By Cash		1000

Dr.		BANK ACCOUNT				Cr.	
Jan 17	To Cash		2000	Jan 28	By Cash		1000

Dr.		CARTAGE ACCOUNT				Cr.	
Jan 19	To Cash		100				

Dr.		SHAMBHU NATH				Cr.	
Jan 25	To Goods		1500				

Dr.		RENT ACCOUNT				Cr.	
Jan 31	To Cash		100				

If while posting the accounts the whole page on which the account is written is filled, the totals are carried to the next page on which that account is carried and in the folio column brought down is written to show that it is carried over. Sometimes brought forward is also used instead of carried forward. On the old page in the same column against the amount carried is written either carried down or carried forward meaning brought down or brought forward.

Indexing:—To be able to find out any account easily and quickly an index is prepared.

Trial Balance (T. B.)

It is a list of both the debit and credit balances of the accounts in the ledger including the cash and bank balances.

Under the Double Entry system there is a debit for every credit and credit for every debit, so if the posting is quite correct the debit and credit totals of the trial balance must agree. The main object of this is to prove the accuracy of the posting and to prepare material for the profit and loss account.

There are **four different ways** of preparing a Trial Balance.

1. A list of ledger accounts is prepared with the Dr. and Cr. totals written in two columns.

2. It is just like the first with the only difference that the accounts having the same totals on either side are ignored. In short closed accounts are neglected in this method.

3. Only the balances of the Dr. and Cr. sides are written against each account and not the totals as in the first case.

4. A combination of both the methods (1) & (3) i. e. the totals as well as balances appear in this case.

Trial balances of the exercise given in the last chapter prepared according to all the four methods are given below:—

First method—(taking totals)

Account Heads.	Dr.		Cr.	
	Rs.	A. P.	Rs.	A. P.
Cash a/c	11,200	- -	8,025	- -
Capital a/c			8,000	- -
Goods ac/	5,100	- -	2,800	- -
Rama	500	- -		
Sarju Parshad	300	- -	300	- -
Wages a/c	325	- -		
Gulab Singh			1,000	- -
Bank a/c	2,000	- -	1,000	- -
Cartage a/c	100	- -		
Shambhu Nath	1,500	- -		
Rent a/c	100	- -		
	21,125	- -	21,125	- -

Second Method (taking totals but neglecting closed accounts.)

Account Heads.	Dr.			Cr.		
	Rs.	A.	P.	Rs.	A.	P.
Cash a/c	11,200	-	-	8,025	-	-
Capital a/c				8,000	-	-
Goods a/c	5,100	-	-	2,800	-	-
Rama	500	-	-			
Wages a/c	325	-	-			
Gulab Singh				1,000	-	-
Bank a/c	2,000	-	-	1,000	-	-
Cartage a/c	100	-	-			
Sambhu Nath	1,500	-	-			
Rent a/c	100	-	-			
	20,825	-	-	20,825	-	-

N. B.—Sarju Pershad's account is neglected as it is a closed account showing Rs. 300 both on the debit and the credit side.

Third Method (taking balances only.)

Account heads.	Dr.			Cr.		
	Rs.	A.	P.	Rs.	A.	P.
Cash a/c	3,175	-				
Capital a/c				8,000	-	
Goods a/c	2,300	-				
Rama	500	-				
Wages a/c	325	-				
Gulab Singh				1,000	-	
Bank a/c	1,500	-				
Cartage a/c	100	-				
Shambhu Nath	1,500	-				
Rent a/c	100	-				
	9,000	-		9,000	-	

In this only balances are taken and so the total of the Trial Balance is reduced.

Fourth Method (combination of the first and the third method)

Account Heads.	Totals.		Balances.	
	Dr.	Cr.	Dr.	Cr.
Cash a/c	Rs. 11,200	Rs. 8,025	Rs. 3,175	Rs.
Capital a/c		8,000		8,000
Goods a/c	5,100	2,800	2,300	
Rama	500		500	
Sarju Parshad	300	300		
Wages a/c	325		325	
Gulabsingh		1,000		1,000
Bank a/c	2,000	1,900	1,000	
Cartage a/c	100		100	
Shambhu Nath	1,500		1,500	
Rent	100		100	
	21,125	21,125	9,000	9,000

In the first method there is a special advantage as all the items are posted from the journal the total

of the journal must tally with the total of the Trial Balance if it is correct. It will be seen that the total of the journal is Rs. 21,125 and the same is the total of the Trial Balance but when other subsidiary books are introduced the total of all the subsidiary books and the journal if the ledger posting is correct will tally with the Trial Balance total.

The second method is not very good as neither the totals will tally with the totals of the journal nor much of the totalling work will be reduced as there are generally few closed accounts.

The third method is good in this respect that much of the totalling work is reduced and besides it gives ready figures for the preparation of the Profit and Loss account. This method is most common as it works very satisfactorily if the ledgers are self-balancing.

The fourth method is a combination of the first and the third and so serves both the purposes of checking the totals as well as of giving ready figures for the profit and loss account.

A trial balance not a conclusive proof of accuracy:-

The Trial Balance as a rule will not agree if there are mistakes but even if it agrees it is not certain that there exist no mistakes. The following errors will not be revealed even if the Trial Balance is correct:—

(a) **Misposting**—If A instead of debiting a

particular account another account is debited the Trial Balance will be quite right. e. g. the entry

Rama	Dr.	100	
To Goods			100

Should be posted to the debit of Rama account but if instead of Rama's account Krishna's account is debited the Trial Balance will agree inspite of this mistake.

(b) **Omission of entries**—If an entry is altogether forgotten both the sides will show the same total. There will be a mistake in the T. B. only if it is posted to one side and not to the other side.

(c) **Compensating errors**—If there is a mistake of the same amount on either side then this error will not disturb the Trial Balance e. g. Suppose Goods a/c is to be debited with Rs. 1000 and instead of this it is debited for Rs. 100 i. e. there is a short debit of Rs. 900 and if a mistake for a similar amount occurs on the Cr. side the Trial Balance will agree quite correctly but still the mistake will remain there.

If however the fourth method of the T. B. is adopted it will guard against all the above mistakes except that of misposting, as the total of the T. B. will fail to agree with the totals of the various books in case of compensatory errors and omissions of entries.

A Trial Balance will however reveal the following types of errors.—

- (1) An item posted to a wrong side.
- (2) An item posted twice in the ledger.

(3) Errors in additions or taking out balances will be revealed unless of course covered by compensating errors.

(4) An item left out in posting.

(5) Figures entered wrongly, as Rs. 5-4-0 entered as. 0-5-4.

It many a times happens that a Trial Balance does not agree in such a case the following procedure should be adopted:--

(1) The totals of the T.B. should be re-checked and the difference between Dr. and Cr. total ascertained.

(2) The totals of all the ledger accounts retaken and the balances written in the T.B. compared with those of the various accounts in the ledger.

(3) It should be seen if all the items in the journal and the other books have been duly posted or not. This should be seen by running through the folio columns of the various books.

(4) The posting of all the opening balances should be checked.

(5) If still there remains an error let the posting be called over again and checked with the ledger.

EXERCISE II

(1) Record in the journal and the ledger the following transactions of Johnson and take out a Trial Balance:—

A. Jones owed to him £ 41 3s; J. Hudson owed to him £ 37. 6s 4d; and he owed to E. Taylor, £ 28 10s. He had goods of £ 120-0-0 and cash £ 172-17-6.

The transactions for the month were as follows:—

1925.		£	s.	d.
Feb. 1.	Sold A. Jones goods	25	2	6
" 2.	Paid E. Taylor 26-12 and he allowed discount 1-18	28	10	0
" 4.	Received cash from J. Hudson	10	0	0
" 8.	Purchased goods from E. Taylor	150	0	0
" 10.	Received from A. Jones in full settlement	60	0	0
" "	Paid cash into Bank	15	0	0
" 11.	" sundry expenses	4	17	6
" 15.	Johnson withdrew from his business	100	0	0
" 28.	Cash Sales during the month paid into Bank	150	0	0
" "	Paid salaries by cheque	10	0	0
" "	Stock on hand	150	1	0

(2) Journalise the following items, post to the Ledger and prepare a Trial Balance:—

1921.		Rs.	As.	P.
Jan. 1.	J. Jones started business with cash	500	0	0
" 2.	Bought goods for cash	328	6	6

Jan. 3.	Sold goods to T. Allenbury	10	0	0
" 5.	Sold goods for cash	43	3	6
" 6.	Received from T. Allenbury	10	0	0
" "	Sold goods to T. Allenbury	3	5	0
" 10.	" to T. Allenbury	8	15	0
" "	" to A. Brown	87	6	8
	Received from T. Allenbury	3	5	0
	Bought goods from Morris & Co.	50	0	0
" 12.	Sold goods to T. Allenbury	4	0	0
" 15.	Paid Morris & Co. Cash	25	0	0
" 20.	Received cash from T. Allenbury	8	15	0
" 24.	" from A. Brown	57	6	8
" 31.	Paid rent	10	0	0
	Stock on hand	227	12	0

(3) Post the following transactions in the ledger, and make up the T. B.

W. Preston had the following assets and liabilities on 1st March, 1925: Cash in Bank, £ 723 3s 3d; Goods, £ 829 3s 11d; due to H. Ordsall, £ 175. Cash in hand, £ 285 5s 5d; Debtor, T. Newport, £ 120 7s. 6d; Creditor J. Castleton £ 39 16s. 2d.

1925.		£	s.	d.
March	1. Paid Ordsall, Less 2½ per cent.			
"	3. Sold to T. Newport, goods	36	6	6
"	5. T. Newport returned damaged goods	6	7	2
"	11. Paid wages,	3	1	9
"	12. Drew from Bank for Office	12	0	0
"	18. Bought from H. Ordsall, goods	43	19	7

March 21.	Allowed by H. Ordsall for damaged woods.	3 7 0
" 25.	W. Preston drew from Bank for private use	10 0 0
" 31.	Received Cash for interest	2 10 0
	Goods on hand	900 0 0

(4) On January 2, 1922, Charles Bains commenced business by paying his capital of £ 500 into the Union Bank, Ltd. and £ 100 in offices.

His transactions for the month of January were as follows:—

- Jan. 3. Purchased cotton goods from Paul Burford £ 84 10 and silk £ 210.
4. Purchased from B. Burns, Velvet, £ 525 gross, less 10 per cent discount.
5. Sold, to Richard Leicester and Co., silk, £ 62 10s., and velvet £ 275 6s.
6. Purchased postage stamps, 5s.
7. Paid trade expenses, by cheque, £ 8 6 2.
9. Received from R. Leicester and Co., cheque for the amount of their account less 5 percent discount.
10. Paid salaries, by cheque, £ 10.
18. Purchased, from R. Hampton, Tweed £ 65 8 6.
21. Returned Tweed, damaged, £ 6 10., to R. Hampton.
31. Paid Paul Barford £ 50 on account.
Stock £ 1000

17707.

Open the necessary Ledger accounts and post the above transactions therein. Balance the accounts, and draw a Trial Balance.

(5) Messrs. Morris & Co; commenced business on 1st January 1918 with the following assets and liabilities:—

		Rs.
	Cash	5,200
	H. Gill	520
	Owing to Govind by way of loan	2,000
January 1.	Bought goods for cash	3,280
" 2.	Sold goods to Rama	100
" 8.	Sold goods for cash	480
" 9.	Received cash from Rama	100
" 10.	Sold goods to Sita Ram	50
" 15.	Received cash from Ram	30
	Sold goods to Parasadi Lal	870
" 19.	Bought goods from Frost	500
" 20.	H. Gill returned goods	52
" 26.	Paid H. Forst to settle the account	475
" 31.	Paid wages by cash	150
	Paid rent	100
	Paid Govind interest on loan for one month	10
"	Stock	2315

Journalise the above items and post them into the ledger and prepare a T. B.

(6) Journalise the following transactions, post them and prepare a Trial Balance of Thomson.

1917.

Jan. 1.	Commenced business with cash	Rs. 1,000
	Bought office furniture of J. Jones	" 100
2.	" stationery and postage stamps	" 5
3.	Bought goods for	" 400
5.	Sold goods for cash	" 80
8.	Sold goods to P. Smith	" 212
9.	" " to R. Adams.	" 105
10.	Paid J. Jones	" 100
14.	Received from P. Smith	" 125
15.	R. Adams paid cash on account	" 75
16.	Bought goods from L. Long	" 250
18.	" " " A. Stevens	" 73
20.	Sold goods to A. Short (cash)	" 210
25.	Paid L. Long	" 150
31.	Paid salaries	" 25
"	Drew for private use	" 50
	Stock	" 375

(7) Record in Journal, the transactions of Shanti Prasad, and prepare T. B. as on 31st March, 1927.

1927.

		Rs.
March 1	Stock in hand	900
" 1	Cash at Central Bank of India	2,250
" 1	Cash in hand	600
" 3	Sold goods to K. Kumar	630
" 4	K. Kumar returned goods	30
" 4	Bought goods of Das & Co.	150
" 8	Bought goods for cash	90

March 10	Received Cash from K. Kumar	570
	Allowed discount to K. Kumar	30
" 11	Paid into Bank	600
" 16	Paid trade expenses	10
" 18	Paid cheque to Das & Co.	140
" 25	Bought goods of Das & Co.	750
" 26	Returned goods to Das & Co.	150
" 26	Paid rates	40
" 28	Sold goods to Laxmi Narain	960
" 29	Laxmi Narain returned goods	30
" 30	Paid wages (Trading)	90
" 30	Paid Trade Expenses	20
" 30	Withdrew for private use	220
" 30	Stock on hand	1050

(8) On 1st. January 1919 Mewa Ram had the following assets and liabilities:—Cash in hand Rs. 435. Goods Rs. 6,885. Owing by S. Sims Rs. 1200 owing to A. Vere Rs. 900, Bank overdraft Rs. 2,250. During the month the following transactions took place.

		Rs.
Jan. 2.	Bought goods from T. Watts	180
" 3.	Sold goods to A. Vere	600
" 4.	Bought furniture from L. Lee	900
" 5.	Bought goods for cheque	180
" 6.	Allowed to A. Vere for damaged goods	30
" 7.	Sold goods for cash	75
" 8.	Paid rent	90
	Paid into bank	150

Jan. 12.	Drew for office from bank	225
" 13.	Bought goods from T. Watts	1,095
" 18.	Returned goods to T. Watts	135
" 20.	Received from S. Sims in settlement	1,170
" 25.	Paid to A. Vere for all his debts	315
" 28.	Paid household expenses	150
" 31.	Paid wages by cash	1000
	Stock	8175

You are required to pass entries for these transactions post them into the ledger and prepare a Trial Balance.

(9) Show in the books of Lala Har Charan, who commenced his business on 1st January 1929, the entries necessary to record the following transactions:—

		Rs.
Jan. 1	Commenced business with a Capital of	10,000
" 2	Paid cash into Trader's Bank	6,500
" 2	Paid for Office Furniture	250
" 3	Bought goods from Har Lal	2,000
" 5	Drew from Bank	100
" 6	Sold goods to Nanak Chand	800
" 8	Paid Fire Insurance for year (in cash)	27/8
" 8	Deposited in Bank	1,000
" 9	Paid Har Lal	1,200
" 11	Sold goods to Hardat Rai	575
" 12	Purchased shop Premises from Mool Chand by drawing money from bank.	4,000

Jan. 14	Paid for telegrams (cash)	7/8
" 15	Bought goods from Jaggi Lal	3,000
" 18	Sold goods to Hardat Rai	3,100
" 19	Drew from Bank	150
" 20	Paid to Collector for taxes for year (cash)	125
" 23	Paid to Har Lal by cheque	800
" 26	Received from Hardat Rai and lodged it in Bank	2,400
" 31	Paid wages in cash	42/8
	Goods on hand valued at	1400

(10) Bal commenced business on 1st January, 1916. Show in his books the entries necessary to record the following transactions:—

		Rs.
Jan. 1.	Capital at commencement	25,000
	Paid cash into Hatras Bank	20,000
" 2.	Paid for furniture (cash)	1,500
	Bought goods from Calcutta Stores	8,000
" 3.	Sold goods to Ram for cash	2,400
	Purchased Shop premises from Framji & Co., (cheque)	6,000
" 4.	Paid Fire Insurance for the year (cash)	70
	Deposited in Bank	2,500
	Sold goods to Binda	300
" 6.	Paid for telegram	2
" 8.	Paid Calcutta Stores (cheque)	4,000
" 10.	Sold goods to Abdul Ghani	3,000
" 11.	Bought goods from Calcutta stores	4,000
	Drew cheque for cash	600

Jan. 12.	Bought goods from John & Co.	850
" 13.	Paid Calcutta Stores (cheque)	6,000
" 19.	Received from Abdul Ghani and deposited in Bank	2,500
" 20.	Paid John and Co.	850
" 21.	Received from Binda	300
" 24.	Paid taxes for the year (cash)	120
" 26.	Sold goods to Binda	1,000
" 29.	Sold goods to Manik Chand	3,000
" 31.	Paid wages (cash)	300
	Deposited in Bank	2,500

On taking stock on January 31 goods on hand were valued at Rs. 5,800.

Post the Ledger and prepare a Trial Balance as at January 31, 1916.



CHAPTER III

From Trial Balance to Balance Sheet.

The next step after the Trial Balance is to prepare a Profit and Loss account and a Balance Sheet. The former is prepared in two parts *viz*: the Goods or the Trading account and the P. & L. account proper. The latter will show the net profit while the former will show the gross profit. The Balance Sheet when prepared will show the true financial position of a concern.

In the Trial Balance there is a list of the various ledger accounts which can be grouped in two main divisions personal accounts and impersonal accounts.

Personal Accounts.—These are the accounts relating to persons such as Rama, Robert. They are sometimes subdivided as debtors and creditors according as the debit or credit side is greater or less.

Impersonal Accounts.—These are the accounts which relate to things and not to persons, such as Wages account, Goods account Machinery account. They are further subdivided into two classes: (1) Real or Property accounts i. e., those forming the various assets of the firm such as Cash, Plant, Building and (2) Nominal or Fictitious accounts i. e. those that represent gains or losses, such as discount, rent, salaries.

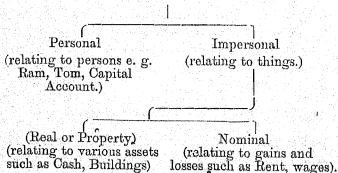
It must however be noted that Capital and Drawings accounts though they *prima facie* appear

to be Impersonal accounts are personal accounts as they are in reality the accounts relating to the proprietor. Similarly accounts relating to payments outstanding at the time of closing the accounts such as Wages outstanding, Rent outstanding, are personal accounts and not impersonal accounts though they look to be so. The reason is that they show the accounts of persons to whom the amounts are to be paid.

The above are the instances of some of the personal accounts which appear as impersonal accounts. Some accounts like Goods, Purchases and Sales are both real and nominal accounts; they are real as they relate to goods and nominal in so far as they relate to gains and losses.

This division and sub-division of accounts will be clear from the following table:—

Ledger Accounts.



Trading Account.

It is an account prepared to ascertain the gross profit earned by trading. On the debit side of this account appear the balance of goods at the start, the purchases made less goods returned, wages, carriage etc. and it is credited with the sales less returns and the stock of goods on hand *e. g.*

Dr. TRADING ACCOUNT. Cr.

To Stock of goods (at the commencement).		By Sales.	
„ Purchases.		Less Returns	
Less Returns.		„ Stock(closing)	
„ Wages.			
„ Carriage.			

It should however be noted that an item 'Wages and salaries' should be taken to the Trading Account while the one styled 'Salaries and wages' should be charged to the Profit and Loss Account.

If the debit side is in excess of the credit it shows that there is loss, if otherwise it is profit.

Functions of a Trading Account are chiefly three in number:—

1. It will show the gross result of trading during a given period.

2. If we collect the results of the trading accounts of other periods it will enable us to compare the results and to see if we are making progress or not.

3. We can also ascertain the ratio of gross profit to turnover (i. e. total sales) during a given period and it will help us to see whether it is increasing or decreasing. This percentage is ascertained as under:—

$$\frac{\text{Gross Profit} \times 100.}{\text{Turnover}}$$

Closing Stock.—In business this is got by actually counting the same and then pricing it. The price at which goods are valued is usually the cost price but when the market price is lower than the cost price they are valued according to the market price. The figure of the closing stock is usually given separately in the exercise.

Presuming the closing stock for the Trial Balance in the chapter II to be Rs. 3,200 we shall have our Trading account as under:—

Trading Account.

1928 Jan.		Rs.	1928 Jan.		Rs.
31	To (opening) stock		31	By Sales	2,800
	„ Purchases 5000				
	Less returns—	5,000		Less Returns 100	
					2,700
„	„ Wages	325			
„	„ Cartage	103	„	„ Stock (closing)	3,200
„	„ Gross Profit	475			
		5,900			5,900

A Goods account is opened generally in the elementary book-keeping, but in actual business a Trading account is prepared and not the Goods account. The Trading account gives better information and is really an elaborate form of the goods account. The journal entry for the closing stock will be :—

Closing Stock Account ... Dr. 3,200

To Goods Account 3,200.

After the Trading account is completed the balance of the same representing either gross profit or loss is carried to P. & L. Account. In case of gross profit the entry will be:—

Trading Account ... Dr. 475.

To P. & L. Account 475.

But if there be gross loss the entry will be exactly the reverse.

P. & L. Account ... Dr.

To Trading Account.

Profit and Loss Account.

It is an account in which are collected all the gains and losses and also the balance of the trading account in order to ascertain the profit or the loss of the business during a particular period.

The principles on which the P. & L. account is divided into two parts are that all manufacturing as well purchasing expenses such as manufacturing wages, cartage and carriage inwards, coal coke and fuel, etc.

are debited to the Trading account, and all the selling and distributive expenses, as well as establishment charges such as salaries, office expenses, rent, advertising etc. are charged to the P. & L. account by the following entries:—

In the case of items of losses, say for instance Rent account the entry will be:—

P. & L. Account Dr.
 To Rent.

In this way the debit balances will be transferred to P. & L. Account and the credit balances showing gains such as commission (earned) will be carried to P. & L. account as under.

Commission account Dr.
 To P. & L. Account.

Taking the above points into consideration, we will have a P. & L. account of the same exercise as under:—

Profit & Loss Account.

	Rs.		Rs.
To Rent account	100	By gross profit (brought forward from the Trading Account.	
To Net profit (transferred to Capital account.)	375		475
	475		475

As already explained the excess of the credit side shows profit and that of the debit shows loss, and the same is transferred to the drawings account and if this account does not exist to the capital account as under:—

In case of profit:—

P. & L. Account	Dr.	375	
To Capital A/c			375

In case of loss:—

Capital Account	Dr.	
To P. & L. A/c		

The various ledger accounts when completed at the end of the period will appear as under:—

CASH ACCOUNT.

Jan. 1	To Capital		8,000	Jan. 5	By Goods		3,000
8	" Goods		1,000	9	" Rama		500
17	" G. Singh		1,000	13	" Wages		25
23	" Bank		200	17	" Bank		2,000
27	" Sarju Pd.		1,000	19	" Goods		2,000
				19	" Cartage		100
				31	" Rent		100
				31	" Wages		300
					" Balance	c/d	3,175
			<u>11,200</u>				<u>11,200</u>
Feb. 1	To balance	B/d	3,175				

CAPITAL ACCOUNT

Jan.				Jan.			
31	To balance	c/d	8,375	1	By Cash		8,000
				31	" P. & L.	a/c	375
			8,375				8,375
				Feb. 1	By Balance	b/d	8,375

RAMA.

Jan.				Jan.			
9	To Cash		500	3	By Balance	c/d	500
			500				500
	To Balance	b/d	500				500

SARJU PRASAD

Jan.				Jan.			
11	To Goods		300	15	By Goods		200
				27	" Cash		100
			300				300

WAGES ACCOUNT

Jan. 13	To Cash		25	Jan. 31	By Trading Account		325
31	" "		300				
			325				325

GULAB SINGH

Jan. 31	To Balance	c/d	1000	Jan. 17	By Cash		1000
			1000				1000
				Feb.1	" Balance	b/d	1000

Dr. BANK ACCOUNT Cr.

Jan. 17	To Cash		2000	Jan. 23	By Cash		1000
				31	" Balance	c/d	1000
			2000				2000
Feb. 1	To Balance.	b/d	1000				

Dr. CARTAGE ACCOUNT Cr.

Jan. 19	To Cash		100	Jan. 31	By Trading a/c		100
			100				100

Dr. SHAMBHU NATH				Cr.			
Jan. 25	To Goods		1500	Jan. 31	By Balance	c/d	1500
			1500				1500
Feb. 1	To Balance	b/d	1500				

Dr. RENT ACCOUNT				Cr.			
Jan. 13	To Cash		100	Jan. 31	By P.&L. a/c		100
			100				100

Dr. GOODS ACCOUNT				Cr.			
Jan. 5	To Cash		3000	Jan. 8	By Cash		1000
" 15	" Sarju Pd.		100	" 11	" Sarju Pd.		300
" 19	" Cash		2000	" 25	" Shambhu Nath		1500
" 31	" Trading a/c		900	" 31	" Closing Stock	c/d	3200
			6000				6000
Feb. 1	" Balance	b/d	3200				

Dr. TRADING ACCOUNT				Cr.			
Jan. 31	To Cartage		100	Jan. 31	By Goods a/c		900
31	" Wages		325				
31	" Gross profit transferred to P. & L. a/c.		475				
			900				900

Dr.

P. & L. ACCOUNT

Cr.

Jan. 31	To Rent	100	Jan. 31	By Gross profit	475
31	" Net profit (transferred to Cap. a/c)	375			
		475			475

It will be seen from the above that the balance of the goods account is transferred to the Trading account, but in actual practice the Trading account contains all the items of the goods account in detail as is already explained.

There is also another practice prevailing and that is to open separate accounts of which the above goods account is built up. e. g. Opening Stock Account, Returns Inwards account, Sales Account, Returns Outwards Account, Closing Stock Account, etc. and then to transfer all these accounts to a Trading account. The ultimate result however in each case is the same. In this case there will not be only one Goods account but separate accounts such as Stock account, Purchases account, Sales account etc. According to this method

the goods account of the above exercise will be substituted by the following accounts:—

PURCHASES ACCOUNT

Jan. 5	To Cash		3,000	Jan. 31	By Transfer to Trading a/c		
" 19	" "		2,000				5,000
			<u>5,000</u>				<u>5,000</u>

SALES ACCOUNT.

Jan. 31	To transfer to Trading a/c			Jan. 8	By Cash		1,000
			2,800	" 11	" Sarju Pd.		300
				" 25	" Samblu Nath		1500
			<u>2,800</u>				<u>2,800</u>

RETURNS INWARDS ACCOUNT.

Jan. 15	To Sarju Pd.		100	Jan. 31	By transfer to Trading a/c		100
			<u>100</u>				<u>100</u>

N. B. When any account is to be balanced and it is not transferred to any other account it is necessary to close the account by carrying forward its balance

(either Dr. or Cr.) as shown in the above ledger accounts such as Cash, Rama and others. These are the balances that will appear in the opening entries of the next year and also in the Balance Sheet.

Balance Sheet.

The last thing is to prepare a Balance Sheet, which is a statement showing the different assets (i. e. property of any description) and liabilities (i. e. debts to the firm) and also the capital account at the end of a particular period. It is prepared by closing all the personal and real accounts and collecting all the balances together.

The Balance Sheet of the previous Trial Balance will be as under:—

Balance Sheet of Mr. Beni Pd. as on 31st January, 1928.

<i>Liabilities.</i>		<i>Assets.</i>	
Capital	8,375	Cash	3,175
Gulab Singh	1,000	Bank	1,000
		Sambhu Nath	1,500
		Ram	500
		Stock on hand	3,200
	9,375		9,375

Its utility—From the above Balance Sheet it will be known as to how useful a document it is as it throws light on several important points relating to the business.

(a) In the first place it will tell us if the firm is solvent or otherwise. If the assets are less than liabilities there will be a debit capital balance and it will be clear that it is not solvent, if otherwise it is solvent.

(b) It will give information as regards the assets and liabilities, their nature and extent.

(c) Lastly we can know much as regards the stability of the firm. If the liquid assets such as cash and bank balances, debtors etc. exceed the amount of liabilities to be paid then the position of the firm is quite sound, or else the firm is overtrading and is likely to be bankrupt on account of its going out of its financial limits.

Its form and order:—[It will be seen that the form of the Balance Sheet is different from that of the ledger accounts. In the first place the words 'To' and 'By' are absent. Secondly the words Dr. and Cr. are omitted. Thirdly the sides are changed. The side on which debit items are to be written is used for credit items. The Americans and some Scotch accountants write this differently i. e. they write assets on the left hand side and the liabilities on the right. This is just the opposite to what is done in the English method.

There are two methods of arranging the items on each side.

(i) The first method is based on the idea that it is by the conversion of assets into cash that the liabilities will be paid up and so they are arranged according to their convertibility such as cash, bank, bills receivable, debtors, buildings, etc. and similarly the liabilities are also written in the order in which they are payable such as bills payable, loans, creditors, etc.

(2) The second method is of stating the assets in the order of their permanence such as fixed assets, floating assets, etc. All the assets in a balance sheet can be classified as under:—

Fixed assets are those which are acquired for the purpose of earning income such as Building, Machinery, Goodwill, Horses and Carts, etc. These assets constitute a Fixed Capital. Their valuation for Balance Sheet is based upon their utility to the business as a going concern.

Floating or circulating assets are those that are acquired for the purpose of resale or conversion into money at a later date, such as Stock in trade, Debtors, Bills Receivable etc. This constitutes the Floating or Circulating Capital. For the sake of Balance Sheet they are valued at the cost or market price whichever is lower.

It should be clearly borne in mind that this distinction will depend upon the circumstances. In the case of a mill, machinery will be considered as a fixed

asset which in the case of a dealer in machinery will be a floating or circulating asset because it is the thing in which he deals.

Wasting assets are of fixed nature that decrease in value either through wear and tear such as Plant and Machinery or through lapse of time such as lease.

Fictitious assets are those items on the asset side of a Balance Sheet which do not represent any tangible possession or property and from which nothing can be realised *e. g.* debit balance of P. and L. account, insurance prepaid, preliminary expenses, etc.

Liquid assets are those that can be readily turned into money such as securities, investments, bills, etc.

Goodwill—In the above classification of assets this word requires a little explanation. It is a fixed intangible asset the existence of which is due to good connections, or to the reputation which a business has acquired, or to the suitable position of a business house. If a certain firm earns reputation for some reason or the other, at the time of selling the business it will not dispose off its property for the market price only but will in addition charge something extra for name or reputation. This extra price is designated as "Goodwill." The purchaser will pay more because he has reason to expect that in spite of the change of the proprietors the old customers will continue to patronize the firm. It is for this reason that this extra price paid, is treated as a Fixed Asset and is shown in the Balance Sheet, more so as it is expected that not only

there will be an additional profit to the business on account of the purchase of goodwill but when the concern will be sold the Goodwill will fetch even more price than was paid for it.

Difference between a Trial Balance and a Balance Sheet.—The former contains simply the list of all ledger balances and thus includes both the gains and losses as well as assets and liabilities, while a Balance Sheet includes only assets and liabilities. Secondly a Trial Balance is prepared before the Profit and Loss account while a Balance Sheet is prepared afterwards.

EXERCISE III.

(1) From the following particulars draw up the Trading Account, Profit and Loss Account and Balance Sheet as on 31-12-1927.

	£	s.	d.
Cash	1,075	19	1
Stock of Goods on January 1, 1927.	5,342	7	6
Capital	6,762	3	4
Purchases	6,425	6	1
Freight on same	124	7	4
Sales	10,140	5	2
Rent and Rates	802	11	9
Insurance	110	0	0
Commission on Sales	628	2	5
Lighting and Water	506	5	9
Wages and Salaries	750	4	2
General Expenses	1,137	4	5
Stock (closing)	4,723	8	9

(2) The following is a Trial Balance of Mr. Durga Das on 31st December 1919.

Stock, 1st January 1919	20,000	
Sundry Debtors	20,000	
Plant and Machinery	10,000	
Wages (Trading)	5,000	
Salaries	2,000	
Capital		50,000
Land and Building	30,000	
Creditors		10,000
Travelling Expenses	2,000	

Purchases ,	1,00,000	
Sales		1,40,000
Cash	11,000	
	<u>2,00,000</u>	<u>2,00,000</u>

Stock on 31st December, 1919 amounts to Rs.25,000.

Prepare Trading, P. & L. account and B/S.

(8) The following is the Trial Balance of Mr. Trikamdas as on 31st December, 1919. Prepare Trading and Profit and Loss accounts and B/S.

	Rs.	Rs.
Stock in hand	12,600	
Purchases	75,000	
Sales		112500
Sundry Debtors	27000	
Sundry Creditors		18000
Sales Returns	7200	
Purchase Returns		6300
Wages and Salaries	4800	
Rent, Rates and Taxes	3600	
Sundry Charges	1500	
Fixtue and Furniture	5000	
Cash	33300	
Capital		33200
	<u>170000</u>	<u>170000</u>

Stock in hand Rs. 22,500

(4) From the following Trial Balance prepare Trading Profit and Loss account and Balance Sheet of Mr. Chatersen as on 31-12-1926.

Cash	Rs. 750	Capital	Rs. 13,082
Bank	840	Loan	5,000
Trade charges	120	Creditors	1,327
Stock	3,728	Sales	9,493
Purchases	5,392		
Returns (Inward)	312		
Wages (Productive)	527		
Debtors	1,292		
Bad debts	307		
Insurance charge	87		
Discount	59		
Furniture	1,209		
Buildings	4,792		
Machinery	9,487		
	<hr/> 28,902		<hr/> 28,902

Stock in hand Rs. 4377

(5) From the following Trial Balance make out a Balance Sheet and Profit and Loss account for the year 1927:—

Trial Balance on the 31st December 1927.

Dr.			Cr.
Rs.			Rs.
2,250	Cash		
7,800	Bank		
	Capital		50,000

Dr.		Cr.
Rs.		Rs.
	Loan	35,000
1,200	Interest	
23,000	Machinery	
3,700	Salaries	
350	Postage and Telegrams	
	Goods Account	9,000
	Discount	800
	Commission	2,500
40,000	House Property	
	Rent	2,500
600	Taxes	
	W. Jones	15,000
11,000	W. Graham	
1,000	Depreciation	
23,900	Cowper	
<u>1,14,800</u>		<u>1,14,800</u>

Value of goods on hand Rs. 25,000.

(6) From the following balances of Mr. Simpson as at 31st December, 1922, Prepare Trading Account, Profit and Loss Account and Balance Sheet:—

	£		£
Capital	9,000	Discounts received	235
Creditors	1,720	Discounts allowed	129
Sales	12,360	Fuel and Lighting	67
Purchases	7,650	Repairs	83
Stock, 1st Jan. 1922	5,800	Machinery	250

Debtors	4,500	Incidental Expenses	211
Wages	350	Bank	2,050
Salaries	210	Land and Building	1,960
Rent and Rates	55	Closing Stock	4,750

(7) From the following Trial Balance prepare Trading and P. and L. accounts and Balance Sheet as on 31-12-1927.

	£		£
Cash at Bank	3,000	Sundry Creditors	89,850
Petty cash in hand	15	Sales	26,185
Sundry debtors	36,825	Stock on hand	13,705
Buildings	20,000	Purchases	42,000
Machinery	15,000	Wages	7,020
Discounts allowed	1,950	Carriage outward	1,950
Discounts allowed		Bad debts written off	500
to customers	4,690	Repairs	420
Returns	1,350	Trade and General	
Rent and taxes	500	expenses	2,510
Advertising	2,300	Interest on loans	600
Travellers' Salary	2,150	Capital Account	36,850
Goods on hand	£ 17,500.		

(8) From the following Trial Balance prepare Trading account, P. and L. account and Balance Sheet as on 31-12-1925.

	Rs.		Rs.
Cash	750	Purchase	15,720
Stock	7,500	Sales	21,924
Interest	601	Carriage	1,250
Salaries	1,508	Wages	2,400

	Rs.		Rs.
Coal coke etc.	905	Discount (cr.)	79
Returns Inwards	409	Taxes	433
" Outwards	525	Wages (office)	123
Debtors	4900	Creditors	2208
Capital	14000	Drawings	526
Rent	348	Insurance	1200
Bad debts	72	Discount	82

Stock on hand Rs. 2428.

(9) Prepare Trading and Profit and Loss Account for the year ended 31st March, 1922 and Balance Sheet as at that date from the following particulars:-

	Rs.		Rs.
Horses and carts	1,438	Trade Debtors	1,570
Capital	25,000	" Creditors	790
Loan	2,000	Office Expenses	2,321
Cash at Bank	9,350	Rent	275
Office furniture	700	Discount (Cr.)	770
Commission (earned)	35	Premises	5,340
Salaries	400	Plant and Machinery	
Bank charges	75		13,330
Stock-1st April 1921	3,275	Purchases	12,894
Sales	22,373	Stock on hand	2,975

(10) Draw up (from the following Trial Balance) the Trading and Profit and Loss accounts and Balance Sheet of Samuel Taylor. The stock on December 31, 1919 was £ 786-14s.-6d.

	£	s.	d.	£	s.	d.
Capital Account				4,074	10	0
Stock, January 1, 1919	685	3	9			
Salaries	200	0	0			

Wages	715	4	10			
Purchases	2,974	6	8			
Trade Expenses	179	4	2			
Advertising	120	14	0			
C. Rhodes, Loan				780	0	0
Bad Debts	36	18	6			
Rent, Rate and Insurance	135	9	6			
Postage	65	3	6			
Gas and Water	44	14	9			
Sales				4,908	19	0
Returns	124	8	6			
Fixtures and Fittings	1,122	10	6			
Rent Received				25	0	0
Repairs	35	6	3			
Sundry Debtors	3,499	13	8			
Sundry Creditors				329	4	10
Cash in hand	4	9	4			
Bank Balance	118	6	11			
Interest on Loan	62	10	0			
Bank Interest				6	10	6
	10,124	3	4	10,124	3	4

N. B.--In addition to the above exercises, Trading and P. & L. accounts and Balance sheets should be prepared of examples at the end of Chapter II.



CHAPTER IV.

Bank Transactions and Cash Book

Banks play such an important part in the business life of today that rarely a merchant can be found who does not keep an account in the same. It is for this reason that a working knowledge of banking transactions is absolutely essential for a business man.

Bank—In the words of Prof. Kinley 'It may be described in general terms as an establishment which makes to individuals such advances of money or other means of payment as may be required and safely made and to which individuals entrust money or the means of payment when not required by them for use'.

Money is entrusted to the banks for various reasons. People not only have their money kept safe but get in addition some interest on deposits. They can also make their payments through banks by means of cheques which are orders to the bank to pay money. They can overdraw in case of need if their financial standing is good. Banks collect dues of their customers and give references for them also.

Money can be deposited with a bank for a fixed period and such deposit is called **fixed deposit**, and the period for which it is kept is, generally 3, 6, 9, 12, or 24 months. The second method is to keep money

on **saving bank** system. In this system deposit is kept with a bank on certain conditions, the important ones of which are that there is some maximum limit for keeping the funds, money can be drawn generally once a week on the production of the pass book and a withdrawal form and some maximum amount is laid down beyond which we are not allowed to withdraw at a time. The third method is to have a **current or Drawing** account. This method is the only one that is adopted by the merchants. In this method money can be kept and withdrawn as many times as one likes even on every banking day and there is no necessity of taking the pass book with the cheque. A cheque can be given to any person and he may take payment or can pass it on to another party in satisfaction of his own debt to that person. This is very advantageous as a transaction can be made even on banking holidays and with one cheque debts of many persons can be satisfied and no actual passing of money is necessary. It is however the practice with all the banks to fix a minimum balance which every depositor has to maintain. Some banks do give some interest on current accounts while others do not.

At the time of opening a new account the depositor is given three books (1) a cheque book (2) a pass book, and (3) a paying-in-slip book.

A Cheque Book:—It is a book containing a number of cheques *i. e.* orders on the bank. Legally a cheque is an unconditional order on a banker signed by the drawer ordering payment on demand of a specified amount, to a specified person or order, or to the bearer.

In India a cheque does not require a stamp, but in England it does require a stamp of 2d. Its usual form is like the following:—

(*Cheque.*)

(*Counterfoil*)

No. A 5734	20/3/1928	No. A 5734	BOMBAY 20th March 1928.
Messrs. Kemp & Co. Ltd.		The Bank of India Ltd.	
for bill no 721 of 3. 3. '28.		Pay Messrs. KEMP & Co. Ltd......or bearer	
Rs. 1000/-		<i>Rupees one thousand only</i>	
		Rs. 1000/-	Rao & Co.

The above is a specimen of a cheque drawn by Messrs. Rao & Co. on The Bank of India Ltd., Bombay in favour of Messrs. Kemp & Co. Ltd., for Rs. 1000/-. To the left hand is the counterfoil which is left in the book, the cheque portion being sent to the party. This counterfoil serves a useful purpose of reference.

The cheque form contains a very elaborate printing on a special paper, all this with a view to keep no loophole for fraud or forgery. Besides every eraser or correction must be initialled and the signature of the drawer must agree with the specimen lodged with the bank.

The person who draws a cheque is called a *drawer* and the bank on which it is drawn is known as the *Drawee* and the person in whose favour it is drawn is called the *Payee*.

It depends upon Messrs. Kemp & Co. Ltd. now either to get payment of this cheque or to give it to some other party for debts.

A cheque is of two types *bearer* and *order*. The above is the form of a bearer cheque because it is written 'Pay Messrs Kemp and Co. Ltd. or *bearer*,' but if it is written *order* in place of bearer it will be an *order* cheque. A bearer cheque can be transferred by simple delivery but an order one needs in addition to delivery 'endorsement' which is done by the holder's signing his name generally on the back of the bill for the purpose of negotiation.

Pass Book—It is a book in which all the transactions of a party with the bank are recorded and it is to be checked now and then with the cash book or with the bank account in the ledger to avoid mistakes.

Its form is as under:—

Messrs. A. & Co. Ltd.

in account current with The Bank of India Ltd.

Date	Particulars.	Drawn out	Paid in	Balance	Signature
1928 March 1	By G. C. notes.		2000 0 0	2000 0 0	C. P.
20	To Kemp & Co. cheque no. 5734.	1000 0 0		1000 0 0	C. P.
22	By cheque & notes.		3272 10 9	4272 10 9	C. P.
27	To A & Co. cheque no. 5737.	500 0 0		3772 10 9	C. P.

Paying-in-slip-book:—It is a book containing slips used for writing the amount and its details when sending it to the bank for crediting it to the depositor's account.

The Bank of India Ltd. Bombay, 27/3/28			The Bank of India Ltd., Bombay, 27th March. '28		
Notes	100 0 0		Notes	100 0 0	Paid into the credit of Messrs R & Co. Ltd. the sum of Rs. five hundred only. by Amir Chand. Ledger—Cashier.....Folio.....
Silver	191 9 0		Silver	191 9 0	
Cheques	208 7 0		Cheques	208 7 0	
Rs.	500 0 0		Rs.	500 0 0	

The pass book can also be compared with the Paying-in-slip book for all credits and with the cheque book to see the debits.

Entries in the books

Payment by cheques

Whenever we pay anybody by means of a cheque, we shall give the party a cheque and he will get the money for the same from our bank and *not from our office*. Therefore when we pay Anand Swarup Rs. 100 by cheque we will journalize this as:—

Anand Swarup	Dr. Rs. 100	
To Bank		Rs. 100.

In this case the bank account is credited as the payment is to be made by the bank and so if the cash account is credited it will be incorrect, because our cash account will not be affected in the least but the bank balance will be reduced by Rs. 100.

When however we want to bring cash in the office from our bank the entry will be:—

Cash	Dr.
To Bank	

This will increase the cash balance in the office and reduce that of the bank by the same amount.

If the money drawn by a cheque is required for private use of the owner and not for the business he will journalize this as follows:—

Drawing a/c	Dr.
To Bank	

'Drew for self' means drawn for private use.

Receipt of cheques:—

When we receive a cheque in payment, cash account is to be debited and the party's account is to be credited, but it is the practice with some, to send such cheques directly to the bank and to debit Bank account because no cheque is cashed directly but through the bank. There are some who give cheques received to other persons in satisfaction of their debts then the account of the person to whom the cheque is given is debited and that of the person who gives is credited. This practice is not much sound and is rather risky.

The following examples will make all the methods quite clear. A cheque of Rs. 250 was received from Benson.

(i) Where cheques are treated as cash.

Cash	Dr. Rs. 250	
	To Benson	Rs. 250

(ii) Where cheques are treated through the bank.

Bank	Dr. Rs. 250	
	To Benson	Rs. 250

(iii) Where the cheques received are passed to creditors.

Suppose that it is given to Chandrasen then :—

Chandrasen	Dr. Rs. 250	
	To Benson	Rs. 250.

When the Bank allows some interest on deposits the following entry will be made for crediting that interest.

Bank	Dr.
To Interest a/c.	

But when the bank charges us for postage or for collecting our dues or some such work then

Bank charges a/c	Dr.
To Bank	

is the entry to be passed. If the bank charges interest for overdraft allowed to us (i. e. for taking more money from the bank than is due to us) then the entry for the interest is

Interest a/c	Dr.
To Bank.	

If the business transactions of a merchant are analysed it will be found that they can be grouped as under:—

- (i) Relating to cash or bank
- (ii) Relating to purchase and sale of goods
- (iii) Relating to bills
- (iv) Miscellaneous transactions.

Up to this time we had passed all our entries through the journal and there was no other book of entry. As already explained the continental system insists on keeping journal, but not the English system.

For the sake of simplicity, convenience and saving of time, it has been found necessary to make use of the following subsidiary books:—

- (1) Cash Book for cash or bank transactions.
- (2) Purchases, Sales and Returns Books for credit purchases, sales and returns.
- (3) Bill Books for bill transactions.

Cash Book

As the very name shows a cash book contains only cash transactions. It is divided into two parts *cash* and *contra*, the latter meaning opposite or against. In the debit or cash side are written all receipts and on the other all payments. On the debit side the first item is 'To balance' and shows the balance brought down from the last period. On the Cr. side the last item is 'By balance' and shows the amount of cash on hand at the time of closing and it will form the opening balance of the next period.

Example.

1927.

Dec.	1	Balance on hand	Rs.	350	10	0
		Balance in bank		400	0	0
"	1	Paid to petty cashier		100	0	0

Dec. 2	Rama & Co. paid us	Rs. 300	0	0
" 4	Paid trade expenses	15	7	0
" 5	Paid into bank	300	0	0
" 7	Received a cheque from S. & Co.	450	15	6
" 9	Drew from Bank	300	0	0
" 10	Trivedi paid in settlement of our account of Rs. 200/-	190	0	0
Dec. 11	Received a cheque from Tribeni- sahai and paid the same into bank	195	12	0
" "	Allowed him discount	4	4	0
" 15	Paid Gopal and Co. by cheque	290	0	0
" 18	Paid wages	72	12	9
" 22	Paid Jamshetji (he allowed us discount Rs. 4/6)	125	10	0
" 24	Received a cheque from Yadav and Bros.	423	11	6
" "	Discount allowed to them	6	4	6
" 25	Drew cheque for office use	200	0	0
" 27	Received from Jainti Pd.	522	8	0
" 28	Paid into bank	815	0	0
" 31	Cash sales during the month	4327	12	9
" "	Paid into bank	4500	0	0
" "	Paid salary	897	8	6
" "	Paid stationery bill	125	7	9

CASH BOOK.

Date.	Receipts.	Ledger folio.	Amount Rs.	Date	Payment,	Ledger Folio.	Amount Rs.
1927 Dec. 1	To Balance	b/d.	350 10 0	1927 Dec. 4	By Petty cash		100 0 0
2	" Rama & Co.		300 0 0	4	" T. Expenses		15 7 0
7	" S. & Co.		450 15 6	5	" Bank		300 0 0
9	" Bank		300 0 0	11	" Bank		195 12 0
10	" Trivedi		190 0 0	18	" Wages		72 12 9
23	" Tribeni Sahai		195 12 0	22	" Janshetji		125 10 0
24	" Yadav Bros.		423 11 6	28	" Bank		815 6 0
25	" Bank		200 0 0	31	" Bank		4500 0 0
27	" Jain'i Pd.		522 8 0	"	" Salary		897 8 6
31	" Cash Sales,		4327 12 9	"	" Stationery		125 7 9
	Total ...		7261 5 9	"	" Balance	c/d	113 11 9
1928 Jan. 1	To Balance.	b/d.	113 11 9				7261 5 9

In this cash book the discount column is introduced and so the discount amount will be added to cash amount while posting to a party's account. The totals of the discount columns are posted to the discount account. The total of the debit side, which shows discount allowed by us, is posted to the debit side of the discount account as it is a loss and that of the credit side (representing discount allowed to us) to the credit side in the ledger, as it is a gain to us.

There is another method of posting the discount amount, and in this only the difference of discount columns is posted but it is neither much in practice nor very safe.

In both these methods there is no necessity of opening a cash account in the ledger, but there must be a Bank account. Some people use a cash book having a column for bank transactions, and then it is not necessary to open a bank account. Cash transactions are written in the cash columns and bank transactions in bank columns as shown on the next page.

This form is very useful as well as economical as it contains both the Cash and Bank columns. However as there are two accounts in the same book when there is a transfer of some amount from one to the other it will have to be recorded on either side. Suppose on the 5th December Rs. 300 have been paid into the bank. Rs. 300 must be written on the debit side in the bank account and the same amount on the credit side of the cash (office) account. Similarly when Rs. 300 are withdrawn from the bank on the 9th, on the credit side of the bank Rs. 300/- are written and the same amount is written on the debit side of the cash account. In this Cash Book we get the balances of both the cash and bank and it is carried forward and is shown in the Balance Sheet.

(iii) Cash Book with Cash and Bank Columns.

Date	Receipts.	Dis.	Office or Cash.	Bank.	Date	Payment.	Dis.	Office or Cash.	Bank.
1927 Dec. 1	To Balance.	b/d	350 10 0	400 0 0	1927 Dec. 1	By P. Cash.		100 0 0	
2 "	" Rama & Co.	...	300 0 0	...	4 "	" T. Exp.		15 7 0	
5 "	" Office.	...	...	300 0 0	5 "	" Bank.		302 0 0	
7 "	" S. & Co.	...	450 15 6	...	9 "	" Office.		...	300 0 0
9 "	" Bank	...	300 0 0	...	11 "	" Bank.		195 12 0	
10 "	" Trivedi.	10-0-0	190 0 0	...	15 "	" Gopal & Co		290 0 0	
11 "	" Tribenishahi.	4-4-0	195 12 0	...	18 "	" Wages.	4-6-0	72 12 9	
11 "	" Office.	...	...	195 12 0	22 "	" Janshetji.		125 10 0	
24 "	" Yadav Bros	6-4-6	423 11 6	...	25 "	" Office.		...	200 0 0
25 "	" Bank.	...	200 0 0	...	26 "	" Bank		815 0 0	
27 "	" Jainati Pd.	...	522 8 0	...	31 "	" Bank.		4300 0 0	
28 "	" Office.	...	...	815 0 0	" "	" Salary.		897 8 6	
31 "	" Cash Sales.	...	4327 12 9	...	" "	" Stationery.		125 7 9	
" "	" Office.	...	4500 0 0	...	" "	" Balance.	c/d	113 11 9	5420 12 0
1928 Jan 1	Total ...	20-8-6	7261 5	96210 12 0				4-6-0	7261 5 96210 12 0
	To Balance.	b/d	113 11 9	95420 12 0					

Posting—There is no special difficulty in posting this cash book only those items relating to the receipt from and payment to the bank or receipt from or payment to the office by bank are neglected as both the accounts are in the same Cash Book. Sometimes 'c' is written against such items in the folio column which means 'contra' or simply a dash is put on either side as in this example.

In some business offices it is the rule to send to the bank all the money received and to make all payments through the bank. In such offices there is no necessity of a cash column, and so the Cash Book will contain only two columns, Bank and Discount. '

As cash first comes in and then goes out its balance must *always be a debit balance* and never a credit one; but in the case of a bank it is generally a debit balance, but when there is a overdraft this balance is a credit one.

Reconciliation Statement or Account

We keep either a bank account in our ledger or there is a bank column in the Cash Book and from that we know how much money of ours is in the bank. The bank records our transactions with it in its ledger and they are copied in our Pass Book from time to time. But it hardly happens that the balance as per our cash book tallies with that of the pass book. It is to show the agreement between these two balances that a statement is prepared generally on the last day

of every month and is called Reconciliation statement or account or Bank Reconciliation statement or account.

The following items are responsible for this disagreement:—

1. **Cheques issued but not presented.** We issue cheques to various persons but all of them do not get them cashed immediately. As soon as we issue a cheque we debit the person to whom we give the cheque and credit bank account *i. e.* we reduce our balance in the bank but the bank will not pass any entry for the same unless it is presented for payment and so generally on any day there are such cheques that are issued but not paid and in order to agree our bank balance in our books with that of the pass book, we shall have to add the amount of such cheques to our balance.

2. **Cheques paid in but not credited**—Again we receive cheques on different banks from various persons in payment for our dues which we send to our bank for collection from the banks concerned and to credit the proceeds to our account in the bank. But when we send such cheques for collection to the bank we debit bank account for their amount; the bank however will not give us credit for them unless they are cleared *i. e.* they have been duly honoured. So on the day of closing there are likely to be some cheques which have been sent to the bank for collection, but not yet cleared and so not credited to our account.

Their amount therefore must be deducted from the balance of our bank account in the cash book to reconcile it with the pass book balance.

3. **Interest and Charges.** In the same way there will be a disagreement if the bank has debited or credited our account with interest or charged us for commission and other charges and we have not made entries for the same in our books. These will also have to be reconciled.

The statement is written as under:—

Bank Reconciliation Statement

Balance as per Cash Book	.....
Add cheques issued but not presented	.....
Add interest allowed to us but not credited by us.	.....
Less cheques paid into the bank but not credited	.....
Less charges and interest charged by the bank but not accounted by us.	.....
Balance as per Pass Book	.....

In the above statement we have started with the cash balance and have tried to reconcile the same

with the Pass Book balance but we can proceed with the latter as well but in that case we shall have to reverse the items *e. g.* cheques issued but not presented will have to be deducted and cheques paid but not credited will have to be added to the bank balance.

Example. On 31-12-1927, our Bank Balance as per Cash Book is Rs. 757-8-0 but the Pass Book figure is Rs. 855-11-0. Cheques of Rs. 315-8-0 issued by us have not been presented as yet and cheques for Rs. 712-4-0 sent to the bank have not been cleared. The bank has allowed us interest Rs. 15-7-0 and charged for commission etc., Rs. 20-8-0 but no intimation was received by us before closing the book. Reconcile the balances.

Bank Reconciliation Statement as on 31-12-'27

		Rs.	a	p
Balance as per Cash Book		757	8	0
Add cheques issued but not presented	315 8 0			
Add interest allowed to us	15 7 0	330	15	0
Less cheques paid into the bank but not credited	712 4 0	1088	7	0
Less charges not accounted by us	20 8 0	782	12	0
Balance as per Pass Book.		355	11	0

This very example can be worked out by the other method:—

Bank Reconciliation Statement as on 31-12-'27

		Rs.	a	p
Balance as per Pass Book		355	11	0
Add cheques paid into the bank but not cleared.	712 4 0			
Add charges not accounted by us	20 8 0			
		732	12	0
Less cheques issued but not presented	315 8 0	1088	7	0
Less interest allowed to us.	15 7 0	330	15	0
Balance as per Cash Book		757	8	0

There is of course a little difficulty in case the bank balance is a credit Balance *i. e.* overdrawn, and it can be got over by putting minus sign to the amount.

Example—On 31st March 1928 the Pass Book balance shows an overdrawn balance of Rs. 120 5 0 but in the Cash Book the balance was Rs. 101 4 0. The amount of cheques issued but not presented was Rs. 93 12 0 and that of the cheques sent to the bank but not credited was Rs. 315 5 0. Reconcile the two balances.

Reconciliation Statement as on 31-3-28.

Balance as per Pass Book (overdrawn)	-120 5 0
Add cheques paid but not credited	315 5 0
	<hr/> 195 0 0
Less cheques issued but not presented	93 12 0
Balance as per Cash Book	<hr/> 101 4 0 <hr/>

Petty Cash Book

Every business has to make petty disbursements almost every day for postage, coolie hire, cartage, etc. and if all these were to be passed through the Cash Book it will be unduly bulky and also there will be many chances of mistakes of posting these small items. So in addition to the main Cash Book, a Petty Cash Book is maintained for this purpose by adopting one of the following methods:-

(a) Some suitable amount is given to start with for petty payments and is debited to Petty Cash Account. A small memorandum book is kept and therein the expenses of petty nature are entered daily. At the end of the month the total of these expenses is written in the Cash Book in a lump sum as trade charges. This method is adopted by small concerns.

(b) In the second method instead of writing one entry in total for expenses, the expenses are summarised and are written under the *various* heads in the

Cash Book. These items are then posted to the debit of the various accounts and not to one account as in the former case.

(c) In the second method the trouble is that the Cash book cannot be closed unless the petty cash figures are received. To avoid this the amount given is charged to Petty Cash account and when the analysed figures of expenses are obtained a journal entry is passed debiting all the expenses and crediting the Petty Cash account. The excess of debit side over the credit side of the Petty Cash account will show the balance of the Petty Cash account and it will be shown in the Balance Sheet.

(d) The most important as well as modern method is the **Imprest System**. A round sum generally sufficient for some convenient period, generally a month is advanced to the Petty Cashier and is charged to Petty Cash account in the Cash Book. At the end of the period a cheque for the total amount of expenses is issued for Petty Cash thus recouping the fixed amount. The totals of the various items of expenses are then posted to the debit of those accounts as 'To petty Cash' and folio is written below each column as shown in example. The balance of the Petty Cash account, which will be a fixed amount, will be added to the cash balance or will be shown separately in the

Balance Sheet. This method is very convenient for checking as the amount of imprest is always a fixed amount. The very word *Imprest* means "held or retained."

The Petty Cash Book is ruled as shown in the example given. There are as many columns as there are heads of expenses in addition to the total column. Sometimes a column is kept in the Petty Cash Book for payments to ledger accounts for minor amounts, then each account must be separately debited for the amounts paid to each individual, but this practice is not good.

Example:—From the following particulars write a Petty Cash Book (Imprest system.)

1928.

Feb.	1.	Received from the cashier.	Rs. 50	0	0
	3.	Paid for stationery	5	2	6
	5.	Telegram charges	2	1	0
	9.	Paid printing charges	2	5	0
	11.	Paid postage	1	2	6
	15.	Paid cartage	3	2	6
	22.	Paid Advertising	5	9	0
	25.	Paid sundry expenses	7	2	0
	27.	Paid printing charges	3	4	6
	28.	Paid for coolie hire	2	2	0
	"	Paid cartage	0	12	6

Exercise IV.

(1) Write up in the Cash Book the following transactions of John Wilson.

1928

Jan.	1	Cash in hand	£ 220 15 0
"	3	Bought goods	35 0 0
"	8	Sold goods	7 16 8
"	19	Bought goods	4 13 4
"	28	Paid trade expenses	1 12 0
"	"	Paid wages	7 1 0
"	31	Sold goods	29 2 0
Feb.	5	Paid to Roberts	2 7 6
"	12	Bought goods	27 16 4
"	14	Paid Rent	5 11 0
Mar.	5	Received cash from James	29 11 6
"	8	Paid cash to D. Knoz	9 15 4
"	12	Received from Noble & Co.	1 13 10
"	14	" from M. Noble & Co.	50 11 4
"	19	Paid Wages	7 1 0
"	24	Paid Trade expenses	1 16 0

(2) Enter the following transactions in a Cash Book.

1928		Rs.
Jan.	1. Cash in hand	1,798
"	1. Cash in Bank	19,000
"	4. Received cheque from R. Jones	4,428
"	5. Paid into Bank	5,000
"	8. Drew from the Bank	5,000

Jan.	9.	Paid, wages	Rs. 1,500
"	14.	Paid V. Green by cheque	2,719
"	15.	Bank charged for collecting R. Jone's cheque	1
"	27.	Received cash from A. Brown	750
"	31.	Paid Trade expenses by cheque	106

Show the Cash Balance at Bank, and in hand, at the close of the month.

(3) Write a Cash Book with a Bank and Discount columns from the following transactions and balance it on June 30th, 1927.

			Rs.	a.	p.
June	1	Balance in hand	1,000	10	6
"	5	Paid into bank	400	0	0
"	6	Drew cheque for H. Jones. (He allowed Rs. 5--discount)	240	0	0
"	8	Do. trade expenses	100	0	0
"	15	Do. T. Brown	150	0	0
"	"	Paid in the Bank cheque from S. Webb	40	0	0
"	22	J. Clark paid into Bank (discount allowed to him Rs. 10)	440	0	0
"	"	Drew cheque for K. Low	550	0	0
"	25	Paid in cheques from E. Jenkins	140	8	3
"	28	Drew cheque for private expense	86	0	0
"	"	Paid into the bank	100	0	0
"	30	Drew cheque for S. Allen	880	0	0

(4) The following are the cash transactions of a firm for one day, enter them in Cash Book, and find out the balance.

Cash in hand	Rs. 461 8 0
Cash at Bank.	7846 13 7
Paid wages.	21 4 6
Paid R. Smith by cheque.	96 1 4
Received from A crossed cheque	147 0 0
Paid for postage.	6 4 0
Received from R. Green.	14 8 0
Received from R. Brown.	401 11 3
Cash Sale.	19 6 0
Drawn from Bank.	600 0 0
Paid Rent.	900 0 0
Paid Taxes by cheque.	48 6 0
Received from Salig Ram.	770 8 0
Paid into Bank.	800 0 0
Petty Cash disbursements (cheque).	17 4 0

(5) Write up Thomas Walker's Cash Book with columns for Discount, Cash, and Bank, from the following items; balance the Cash and Bank columns on 30th April 1928:—

April 1	Cash in hand	£ 33 17 10
" 2	Paid into Bank	10 0 0
" 4	Sold goods for cash	1 4 9
" 5	Paid for advertisements	0 2 4
" 6	Paid by cheque to Martin & Co.	(dis. 2s. 10d.) 7 12 2

April 8	Received from Barnett & Co. and paid into Bank.	9	5	0	(dis. 25s.)
" 9	Received from H. Hirst	1	18	4	(dis. 1s. 8d.)
" 11	Bought goods for cash	4	5	0	
" 13	Received from Benj. Wright	1	19	0	(dis. 2s.)
" 15	Paid for coal	0	15	3	
" 18	Paid to self	1	17	10	
" 23	Received from Dearman	2	18	6	(dis. 1s. 6d.)
" "	Received for goods sold	0	17	6	
" 26	Paid to Andrews & Sons	1	10	0	
" 28	Cash drawn from Bank	2	10	0	
" 29	Paid to Nasmith Bros. by cheque	9	7	6	(dis. 21s. 6d.)
" 30	Paid sundry expenses	1	8	4	

(6) Write the Cash Book having Office, Bank and Discount columns from the following cash transactions and find out the balances.

1926.

June 1	Cash on hand	Rs. 7829	8	9
	Cash in Bank	3247	8	6
" 5	Paid by cheque to Arthur	297	8	0
" 7	" coolies	17	12	0
" 9	Sams paid us	990	0	0
	discount allowed to him	10	0	0
" 12	Purchased furniture by paying cheque	758	2	6

June 15	Paid coolie charges	Rs. 3 8 0
" 17	Paid into bank	700 0 0
" 19	Received a cheque in full settle- ment from Govind for a debt of Rs. 1982 8 6 and paid the same in the bank	1800 0 0
" 22	Drew from bank for private use	175 0 0
" 24	Paid to Sachiv by cheque He allowed us discount	770 0 0 30 0 0
" 26	Paid salary to the manager	400 0 0
" 27	Paid premium by cheque	190 8 6
" 28	Cash Sales	4829 12 6
" 29	Remitted to bank	1900 0 0
" 30	Paid postage and cartage	250 8 6
	" Wages	792 9 9
	" Rent by cheque	300 0 0

(7) At the time of Balancing (December 31st 1930) Bank account in the Cash Book showed a balance of £ 500 but cheques passed for collection before that date, amounting to £ 250, have not been cleared. On December 31st 1930, you had paid a cheque for £ 20, to a customer, in settlement of his account and although you had dealt with that amount through your office cash book, it was not presented. The Pass Book balance is £270. Draw up a Reconciliation statement.

(8) Draw up a Reconciliation statement from the following particulars:—

Bank Balance as per Pass Book	£ 500 10 0
Bank Balance as per Cash Book	568 0 8
Cheques paid in, but not cleared	67 13 2

Cheques paid but not yet presented:—

Smith and Sons	16 2 9
Johns & Co.	23 4 7
Brown & Roberts	10 15 2

(9) From the following particulars show the Cash Book balance on 31st December, 1928:—

Pass Book Balance	£ 937 8 5
-------------------	-----------

Cheques drawn prior to 31st December, 1928, but not presented up to that date:—

S. Brown	£ 29 0 8
A. R. Lambeth	324 3 2
W. Wood	19 2 7

Country cheques paid into bank on 30th December, 1928, but not collected until 2nd January, 1929, £ 35 8s. 10d.

(10) Reconcile the following Bank Balance as on February, 28. bringing the Cash Book balance in agreement with that of the bank:—

Balance as per Cash Book.....	Rs. 972 13 0
Balance as per Pass Book	Rs. 1751 2 4

The amounts of the cheques outstanding, were as follows:—Rs. 324 4 6, Rs. 63 14 0, Rs. 263 13 9, Rs. 73 4 0, Rs. 276 0 7.

The items not entered in the Cash Book were as follows:—

Interest allowed to us by Bank	Rs. 14 4 0
Exchange on cheques on out station Banks	Rs. 2 3 6

Cheque receipts amounting to Rs. 235 were not received in Bank until March 1, but appeared on February 28 in Cash Book.

(11) From the following particulars prepare the Bank Reconciliation Statement showing the Balance as per Bank Pass Book on 31st December, 1917.

The following cheques were paid into the firm's current account at Bank in December, 1917, but were realised and credited by the Bank in January, 1918:—

Manilal Premchand	202 8 0
Tarachand Brothers	305 9 9
Hirji Khetsi	191 15 0

The following cheques were drawn by the firm in December, 1917, but were cashed by the creditors in January 1918:—

Dalal and Sons	417 7 0
Jamshetji Bomonji	564 11 0
Sarabhai Chimán Lal	317 14 0

The Bank account in firm's Ledger showed a Debit Balance of Rs. 1700.

(12) Enter the following items in a petty Cash Book, kept on the imprest system and bring down the balance—

1918.

June 1	Received from cashier	£	3	0	0
" 2	Paid for carriage		0	5	6
" 3	Paid for postage		1	4	4
" 6	Paid for travelling expenses		0	10	9
" 10	Paid for stationery		0	8	11
" 16	Received from cashier amount disbursed				

(13) The following are the petty expenses of a small firm.

	Rs.	a.	p.
Feb. 1	Chaprasi's wages	15	0 0
" 1	Chaukidar's wages	6	0 0
" 3	Pencils and String	2	5 0
" 4	Postage Stamps	5	0 0
" 6	Railway freight on account Books	1	8 0
" 12	Ink	1	4 0
" 15	Telegrams	1	10 0
" 17	Unpaid Letter	0	4 0
" 20	Coolie Hire	0	10 3
" 22	Letter Paper and Envelopes	3	4 0
" 25	Advertising	11	6 0
" 26	Sundries	0	9 0
" 27	Printing Price Lists	9	0 0

It is the custom of the firm to begin each month with an opening cash balance of Rs. 75.

Make up the Petty Cash Book.

(14) Enter the following transactions in the Petty Cash Book of a firm where the imprest is Rs. 50 and find out the balance at the end of the month.

Aug. 1 Postage	0	14	0
" 3 Wages of Coolies	3	9	6
" 6 Telegrams	1	5	0
" 12 Coolie charges	7	5	6
" 15 Postage	2	7	0
" 18 Petty repairs	3	2	3
" 21 Stationery	2	11	9
" 25 Cartage	4	9	3
" 27 Telegrams	3	3	6
" 30 Wages	12	5	3



CHAPTER V.

SUBSIDIARY BOOKS.

The books used under the Double Entry System of Book-keeping can be divided into two main classes:—

(1) **Financial Books or Books of Account** are those that form the part of this system of book-keeping such as the Ledger, the Cash Book, Bill Books, Sales Books, etc. They can further be sub-divided into two classes:—

(a) **Principal Books**—*viz.*, the Ledger and the Cash Book. The latter, however, is the part of the former but is maintained separately as a matter of convenience.

(b) **Subsidiary Books or Books of Original Entry** *viz.*, the Journal, the Sales and Purchase Books, Returns Books and Bills Books. The Journal, however, is the source of all the books but it is for the sake of simplicity and convenience that the different types of entries are made in different books instead of passing them all in one book *i.e.*, the Journal. All these books are also called Books of Prime or First Entry because it is in one of these books that a transaction is first entered.

(2) **Statistical Books** also called **Memorandum Books** are those utilised for recording detail concerning transactions that cannot be conveniently included in books of account *e.g.*, Stock Book.

As the writing and use of the principal books have been dealt with in the previous chapters effort has been made to explain at length the writing of the remaining set of the Books of Account *i.e.*, the subsidiary books.

BOUGHT, SOLD AND BILL BOOKS.

Next to cash transactions rank the entries regarding sale and purchase of goods. Cash sales and cash purchases are entered in the Cash Book but business houses maintain Purchase Books, and Sales Books for *credit* transactions, and this is bound to relieve the pressure on the Journal to a greater extent.

In writing these books the following points are to be borne in mind:—

(1) Only credit transactions are to be entered. There is no doubt that some firms write cash sales in this book as credit sales and show cash receipts as from the parties in the Cash Book. This means an unnecessary increase of work and must be avoided.

(2) Amounts must be entered after deducting the trade discount both in the case of sale and purchase.

(3) Only such articles as are usually purchased for resale are to be entered in the Purchase Book *i.e.*, such goods in which the business house deals. Commodities which are meant for ordinary consumption, or are fixed assets, are not to be written in this book. The same principle holds good in the case of Sales Book also.

Purchases Book.

This book is meant for recording credit purchases. This is also called the *Bought Book*, the *Bought Day Book*, the *Invoice Book*, and its usual form is as under:—

Purchases Book.

Date.	Particulars.	Ledger Folio.	Details.	Totals.
1928				
Feb. 5	Ram Prasad & Co. 200 pairs of Dhories @ Rs. 4 per pair.		800 0 0	
	100 pairs of Saries @ Rs. 10/8 per pair.	72	1050 0 0	1850 0 0
" 12	Bhedwar & Sons 100 Yds. Coating @ Rs. 2-8 a yard.	73		250 0 0
	Goods or Purchase A/c. Dr.	102		2100 0 0

As all these are credit purchasers, the totals against every party's name will be posted to his credit in the ledger, and the total of all the purchases will be debited to the Goods or Purchases account at stated periods. This has in the end the same effect as that of the journal entry:—

Goods account	Dr.	2,100	
To the various parties A/cs.			2,100

Sales Book.

In this book are recorded all credit sales. This book is also known as *Day Book*, *Sales Day Book*, *Sold Day Book*, or *Sales Journal*. The reason of its being called a Day Book is that in it are recorded the daily credit sales.

The ruling of this book is just like that of the Purchases Book. The system of posting is naturally just the opposite of the one adopted in the case of the Purchases Book. As this is a Sales Book the items are posted to the debit of the party's account in the ledger and the total of all transactions is periodically posted to the credit of the Goods or Sales account.

Tabular Departmental or Columnar method—In the above purchases book are written purchases of Dhories, Saries and Coating. If the trader wants to know about the purchases of these articles separately, it will be difficult to get this information without analysing all the transactions. To avoid this and to have ready information at hand both the Purchases and Sales Books are ruled with as many additional money columns as there are commodities; and the detail column is in some cases done away with. At the end of the period totals of the various commodities are posted to their respective accounts. This method is very useful.

Returns Books

These are the books used to record returns and allowances given, differences in prices, adjusted, credits

for empties returned, breakages and the like. So long the invoice regarding the goods is not passed through the account books it can be corrected but once it is recorded there is no other way except making an entry in the Returns Books. Corresponding to the Purchases Book and Sales Book there are two Returns Books called Purchases Returns Book, and Sales Returns Book.

The Purchases Returns book:—or the **Return Outward Book** as it is called from the point that it records the goods going out—has the same ruling as in the Purchases Book. Whenever we return goods to others we receive a credit note (written in red ink) or we send a debit note for the same and it is from this that this book is written. The totals are periodically posted to the credit of the Returns Outwards account and the total of this account is deducted from the total purchases in the trading account. The various personal accounts are debited with the amounts against their names.

The Sales Returns Book or the Returns Inwards Book is ruled just like the Sales Book and is used for entering the transactions regarding the return of goods or empties or allowances given to customers. In such a case a document called a *Credit Note* written in red ink is sent to the customer concerned and an entry for the same is made in this book.

From this book the various personal accounts are credited and the total of this book is posted to the debit of the Returns Inwards Account and is deducted from the total sales during the period.

CREDIT NOTE.

DELHI

25th Feb., 1928.

Messrs. Thomas & Co., Ltd.,
AGRA.

Credited by The Delhi Stationery Mart Ltd.

2 Tables Style B27 returned not being ordered @ Rs. 12/10/- each	25	4	-			
4 Chairs Style A87 charged @ Rs. 25 instead of Rs. 22/8/-	10	-	-	35	4	-

Example.

- Feb. 5 Bought of Messrs. Ram & Co. Delhi.
Stationery Rs. 310/1/0, Books Rs. 1508/12/-.
Paper Rs. 570/12/-.
- " 9 Returned to them Stationery Rs. 45/12
Paper Rs. 77/11/6 being of inferior quality.
- " 12 Sold to Messrs. Sarju Pd. & Sons:—
Books Rs. 427/8, Paper Rs. 327.
- " 15 Purchased from Messrs. Dickinson & Co.
Stationery Rs. 1027/11, Paper Rs. 1728/9.
- " 16 Returned to them Paper worth Rs. 403/9 6
as it was found in a damaged condition.
- " 25 Sold to Messrs. Thomas & Co.
Stationery Rs. 1312/11, Paper Rs. 519/4
Books Rs. 179/4.
- " 26 They returned Stationery Rs. 25/9 Paper
Rs. 121/9, Books Rs. 80/7 being spoiled in the
transit due to defective packing.
- " 28 Sold to Messrs. Anand Bros.
Books Rs. 242/12, Paper 942/11.
- " " They returned Paper Rs. 49/12 as it was of a
different type.

Write the above transactions in the Purchases,
Sold and Returns Books by the tabular method and
prepare a Trading account without taking separate
totals for each type of goods.

Tabular Purchases Book.

Date.	Particulars.	Ledger Folio.	Total.	Stationery.	Books.	Paper.
1928 Feb. 5	Ram & Co.		2389 9 0	310 1 0	1508 12 0	570 12 0
" 15	Dickinson & Co.		2756 4 0	1027 11 0		1728 9 0
	Purchases A/c ... Dr.		5145 13 0	1337 12 0	1508 12 0	2299 5 0

Purchases Returns Book.

Date.	Particulars.	Ledger Folio.	Total.	Stationery.	Books.	Paper.
1928 Feb. 9	Ram & Co.		123 7 6	45 12 0		77 11 6
" 16	Dickinson & Co.		403 9 6			403 9 6
	Returns Outwards A/c...Cr.		527 1 0	45 12 0		481 5 0

Tabular Sales Book.

Date.	Particulars.	Ledger Folio.	Total.	Stationery.	Books.	Paper.
Feb. 12	Sarju Parshad & Sons.		754 8 0		427 8 0	327 0 0
" 25	Thomas & Co.		2011 8 0	1312 11 0	179 4 0	519 4 0
" 26	Anand Bros.		1185 7 0		242 12 0	942 11 0
	Sales A/c ... Cr.		3051 2 0	1312 11 0	849 8 0	1788 15 0

Sales Returns Book.

Date.	Particulars.	Ledger Folio.	Total.	Stationery.	Books.	Paper.
Feb. 26	Thomas & Co.		227 9 0	25 9 0	80 7 0	121 9 0
" 28	Anand Bros.		49 12 0			49 12 0
	Returns Inwards A/c...Dr.		277 5 0	25 9 0	80 7 0	171 5 0

Trading Account.

To Opening Stock		By Sales 3951 2 0	
To Purchases 5145 13 0		Less Returns 277 5 0	
Less Returns 527 1 0	4618 12 0		3673 13 0

This is a trading account in total of all the commodities placed in the market but if it is required to know the result of each thing separately it is facilitated by keeping columnar books.

Bill Transactions

The next set of entries which requires a separate set of books to facilitate working belongs to the Bills group. In this group are included Bills of Exchange and Promissory Notes.

A Bill of Exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument.

Example of a Bill of Exchange

Stamp
Re. 1/2/-

Calcutta 15th March, 1928.

Rs. 1100-0-0

Three months after sight pay to Rama & Co.
or order a sum of Rs. Eleven hundred only for value
received.

To Messrs, Suresh & Co.
Allahabad.

Simon & Co.

This is a specimen of a bill drawn by Messrs. Simon & Co., technically called the *drawer*, and in favour of Messrs Rama & Co., called the *payee*.

In the above bill the payment is to be made three months after sight *i. e.* three months after it is shown to the drawee. The drawee, is not liable on this bill unless he accepts the same. This he does by writing over the bill the word 'Accepted' and signing below it. The bill is then given back to the payee who is to wait for payment till it becomes due. The drawee is then called the *Acceptor* and the bill is known as an *Acceptance*, of the drawee.

In this bill the payment is to be made *after sight*, but there are two other types of bills, *i. e.* *After Date* and *On*

Demand. The latter means immediately on presenting, while the former means so many days or months after the date on which it is written. *At Sight* or *On Presentment* means *on Demand*.

Days of Grace—Really speaking payment must be made on the date thus calculated, but according to the law it does not become due on that date, but three days of grace are allowed and so it becomes due on the third day after such a date. This rule does not apply to instruments payable on demand.

An Inland Bill of Exchange is one which is drawn in British India on a person resident of British India or made payable in British India. Every other bill is a *Foreign Bill*.

A Documentary Bill:—This is a foreign bill to which are attached the documents of title i. e. a Bill of Lading, Insurance Policy etc. and are to be surrendered either on acceptance or on payment of this bill as per instructions given in the bill.

An Accommodation Bill:—It is a bill without any consideration and is issued to raise money by discounting the same. Suppose we want to help Mr. A then we will ask him to draw a bill on us which when accepted by us will be discounted by him and he will send us money to meet it at maturity and he can then use the proceeds. Such bills are also called '*Kites*', '*Windmills*', or *Fictitious Bills*.

A Promissory Note—It is an instrument in writing containing an unconditional undertaking signed by

the maker to pay a certain sum of money only to, or to the order of, a certain person, or to the bearer of the instrument.

Example of a Promissory Note.

Stamp
Annas 9.

Lucknow, 25th March, 1928.

Rs. 500-0-0

One month after date I promise to pay to Messrs. Chandra Prakash & Co., or order the sum of Rupees Five Hundred only for value received.

James Wilson.

In the case of a promissory note the same person is the drawer and drawee. It resembles a bill and for accounting purposes is treated just like a Bill of Exchange and so no separate mention is made of it in this chapter. This of course does not require acceptance as in the case of a Bill of Exchange.

According to the Stamp Act Stamp duty in the form of stamps is required to be paid on every Bill of Exchange and Promissory Note unless it is payable on demand and it varies with the amount as per the Stamp Duty Schedule given on the next page.

When a bill is to be due after a certain period, it is at the option of the holder of the bill either to keep it with him till the date of maturity or to get it discounted. In the case of a bearer bill this is done by simple delivery, but in the case of an order one, it needs both endorsement and delivery. Endorsement is effected by holder's simply signing generally on the back of the bill or in addition by making it payable to some other party. If this is done the party to whom the ownership is transferred becomes the holder. After its maturity it is presented for payment and if it is paid for, the bill is said to be *honoured, met, returned, taken up or lifted*. The person, who is to pay for it may with the consent of the holder, generally before the date, get it cancelled and a new one of increased amount given to the holder. The increase in the amount is due to interest for the additional period. This action is known as *Renewing a Bill*.

Sometimes a bill at the maturity is not honoured then it is said to be *dishonoured*. The same thing happens if the drawee refuses to accept the bill. In case of dishonour either for non-acceptance or for non-payment the holder has to give proper notice to the previous parties to hold them liable. Besides he has to get it presented to the party through a notary public who will note the party's reply on a slip attached to the bill. This is known as *Noting a bill*. In the case of a foreign bill a formal declaration by the notary public is required and it is called a *protest*, this action being known as *protesting a bill*.

For all this work, charges are to be paid, and they are known as *Noting Charges* and are recoverable from the acceptor or the previous party from whom the bill was got.

In Book-keeping, Bills of exchange and Promissory Notes are both called Bills; and a bill on which we are to receive money is called a *Bill Receivable* (B/R.) and a bill for which we are to pay is known as a *Bill Payable* (B/P).

The following are very general hints and will help a beginner to distinguish between a B.R. and a B.P.

(1) The bill which one accepts is to him a B.P. and to the other party a B.R.

(2) The bill that comes in is a B.R. and the one that goes out a B.P.

(3) The bill drawn is to the drawer a B.R. and to the other party on whom it is drawn a B.P.

In the books of a drawer a P.N. is B.P. and a bill of exchange a B.R. Every bill is both a B.R. and a B.P. In the books of a holder entitled to get payment it is a B.R. but the same bill is a B.P. to the party on whom it is drawn. Every business firm therefore keeps two accounts as B.R. account and B.P. account the first is an asset while the other is a liability.

Entries relating Bills Receivable.

When a B.R. is received the entry will be;—
(Supposing A gives a B.R. of Rs. 100 to us).

B.R.	Dr.	Rs. 100
To A, (Giver)		Rs. 100.

After it is received it will be dealt with in one of the following ways and the entries will be :—

- (1) In case we discount it for Rs. 95 with B for cash.

Sundries :—

Cash	Dr.	Rs. 95	
Discount	Dr.	5	
To B.R.			Rs. 100.

In the books of B who has taken the bill.

B.R.	Dr.	Rs. 100	
To Cash			Rs. 95.
To Discount			5.

- (2) In case we retain it upto the time of maturity and it is paid by A on the due date.

Cash	Dr.	Rs. 100	
To B.R.			Rs. 100

- (3) In case it is given to our creditor C. in satisfaction of our debit.

C. (creditor)	Dr.	Rs. 100	
To B.R.			Rs. 100

But if C. takes it for less value say Rs. 95 then the entry will be.

C.	Dr.	Rs. 95	
Discount	Dr.	5	
To B.R.			Rs. 100

- (4) In case it is sent to the bank for collection :—

Bank	Dr.	Rs. 100	
To B.R.			Rs. 100

This item must be taken into account while preparing the Bank Reconciliation Statement in case the bill is pending at the time of closing.

As has already been explained three courses are possible if we retain the bill :—

- (1) It may be paid on the due date.
- (2) It may be renewed before or on the due date.
- (3) It may be dishonoured.

- (1) *Payment*—The entry regarding the payment is

Cash	Dr.	Rs. 100	
	To B.R.		Rs. 100

- (2) *Renewal*.

In this case three entries will be necessary.

(a) A (Giver)	Dr.	Rs. 100	
	To B.R.		Rs. 100

By this entry the old bill is returned.

(b) A (Giver)	Dr.	Rs. 2	
	To interest		Rs. 2

The interest charged is for the additional period to run before the payment can be secured.

(c) B. R.	Dr.	Rs. 102	
	To A (Giver)		Rs. 102

This entry is for giving a fresh bill for the amount now due Rs. 100 for the original bill and Rs. 2 for interest.

Sometimes the additional amount for interest is paid separately then the amount will be credited to the party and so the fresh bill given will be for the amount of the original bill; if not, a bill for the increased amount is given.

- (3) *Dishonour* :—If the bill is retained and is dishonoured the entry will be :—

A (Giver)	Dr.	Rs. 100
To B.R.		Rs. 100

Generally a dishonoured bill is noted and in the case of a foreign bill it is protested also. The fee and expenses are known as *noting charges*. When they are paid they are written in the Cash Book as 'By Noting Charges' and a journal entry is made as under to charge the party concerned for this additional expenditure.

A	Dr.
To Noting Charges.	

The noting charges account will be squared as there will be a debit and credit for the same amount; but the debit of the party's account will be increased.

Noting Charges A/c.

To Cash	...	|	By A	...
---------	-----	--	------	-----

In case a bill already given to some party is dishonoured on receipt of this information, the following entry will be passed :—

Acceptor	Dr.
To Creditor	

There are some who debit that person who gave us the bill instead of the acceptor.

If the bill is already discounted or sent to the banker for collection and is afterwards dishonoured the acceptor will be debited and the bank's account credited. In case the bank has incurred expenses for noting the amount for which the entry is passed includes this amount in addition to the amount of the dishonoured bill.

Entries relating to Bills Payable.

When a Bill Payable i.e. P. N. is given to a party or a bill is accepted by us we shall pass the following entry:—(supposing we accept B's bill for Rs. 200/-).

B.	Dr.	Rs. 200	
To. B.P.			Rs. 200

There are only three ways in which a B. P. can be disposed of:—

- (1) **Payment:**—If it is paid on the due date the entry will be:—

B. P.	Dr.	Rs. 200	
To Cash			Rs. 200

Sometimes a B.P. is paid for by the acceptor before the due date, then he will not pay the full value, but he will deduct the interest of the unexpired period; the allowance of interest upon such payments is termed *Rebate* and the entry in this case will be:—

B. P.	Dr.	Rs. 200	
To Cash			Rs. 195
„ Discount			5

In this case the discount of Rs. 5 includes the rebate. Suppose out of this Rs. 5 a portion that can be earned upto the closing date is Rs. 3 then Rs. 2 will be carried over to the next year's account and will be shown on the liability side of the Balance Sheet as Rebate on bills discounted. The discount account in this case will appear thus:—

Discount account

To P. & L. A/c	3 0 0	By B. P.	5 0 0
To Balance.	2 0 0		
	5 0 0		5 0 0
		By Balance.	2 0 0

This operation is very common in banks which buy bills before their maturity. If it takes full amount of discount to the P. & L. account the profit of that period will not be correct and it is for this reason that the income is apportioned between the two periods.

(2) **Renewal:**—In this case three entries will have to be passed:—

(a) B. P.	Dr.	Rs. 200	
To B. (creditor)			Rs. 200
For cancelling the old B. P.			
(b) Interest account	Dr.	Rs. 4	
To B. (Creditor)			Rs. 4
For the Interest allowed.			
(c) B. (creditor)	Dr.	Rs. 104	
To B. P			Rs. 104

Sometimes the amount of interest is paid in cash then the amount for which a fresh bill is accepted is only for the original amount of the bill.

- (3) **Dishonour:**—If we fail to honour our B. P. the entries will be :—

B. P.	Dr.	Rs. 200
To B. (creditor)		Rs. 200
Noting Charges	Dr.	Rs. 2-8
To B. (creditor)		Rs. 2-8

If B spends for noting charges the amount is to be paid by us and so we will have to give him credit for the same by the above entry.

In the ledger there are both B.R. and B.P. accounts. As a B.R. comes first and then goes out, that account will always show a debit balance and is shown as an asset in the Balance Sheet while a B. P. is first given and then comes back to us when it is paid for, this account will always show a credit balance and is shown as a liability in the Balance Sheet.

B. R. and B. P. Books.

As transactions relating to bills are numerous it is very convenient to maintain the two books rather than pass the entries through the Journal.

In the *B. R. Book* are entered the bills received by us with the necessary particulars and the amount of each bill is thence posted to the credit of the person who gave us the same. At the end of a fixed period the total of this book is posted to the debit side of the

B. R. account. In the column 'How disposed off' is written against each bill as to how it is dealt with, and if nothing is written against any bill, it means that it is pending.

In the *B. P. Book* are recorded all bills we accept or promissory notes we give. The amount of each bill is thence posted to the debit of the party to whom we give the bill and at the end of the fixed period the total of this book is credited to the B. P. account. In the 'How disposed off' column is recorded the way in which it is disposed off, and if nothing is written it means it is pending.

Example.—Enter the following transactions in the B. P. and B. R. books and prepare B. R. and B. P. accounts in the ledger upto the end of Feb., 1928.

- Jan. 15. Received a B/R from John Bros for Rs. 512 of the same date due 1 month after date.
- Jan. 27. Accepted Jame's draft on us for Rs. 125 1 m/d drawn on 18-1-'28.
- Feb. 18. John Bros. got their acceptance renewed by a fresh bill for Rs. 535 including interest payable 1 m/d.
- 21. Our acceptance given to James was honoured by our bank.
- 25. Drew a bill on Sitla Prashad for Rs. 825 due 3 m/d who accepted the same on that date.
- 25. Discounted the above bill with the Central Bank for Rs. 811.
- 26. Accepted Ramji's draft dated 20th Feb., on us for Rs. 250 due 3 m/s.

Bills Receivable Book.

No. of bill.	Date of receipt.	From whom received.	Ledger Folio.	Amount of bill.	Drawer.	Acceptor.	Where Payable.	Date of bill.	Term.	Due date.	How disposed off.
1	15-1-'28	John Bros.		512 0 0	Self	John Bros.	Agra Bank.	15-1-'28	1 m/d	18-2-'28	Renewed.
2	18-2-'28	Do.		535 0 0	Self	"	"	18-2-'28	1 m/d	21-3-'28	
3	25-2-'28	Sital Pd.		825 0 0	Self	Sital Pd.	"	25-2-'28	3 m/d	28-5-'28	Dis-counted
				<u>1872 0 0</u>							

Bills Payable Book.

No. of bill.	Date of acceptance.	To whom given.	Ledger Folio.	Amount of bill.	Drawer.	To whom payable.	Where Payable.	Date of bill.	Term.	Due date.	How disposed off.
1	27-1-'28	James.		125 0 0	James.	James.	Our office.	18-1-'28	1 m/d	21-2-'28	Paid.
2	28-1-'28	Ramji		250 0 0	Ramji	Ramji	"	20-2-'28	3 m/s	29-5-'28	
				<u>375 0 0</u>							

Bills Receivable Account.

1928				1928		
Jan 15	To John Bros.		512	Feb 15	By John Bros.	512
Feb 18	" " "		535	" 18	" Sundries.	825
" 25	To Sitla Pd.		825	" 26	" Balance.	c/d 535
			1,872			1,872
Mar. 1	To Balance.	b/d	535			

Bills Payable Account.

1928				1928		
Feb 21	To Bank		125	Jan. 27	By James.	125
" 28	" Balance	c/d	250	Feb. 28	" Ramji	250
			375			375
				Mar. 1	By Balance.	c/d 250

It will be seen that the balances of both the Bills Receivable and Bills Payable accounts agree with the Bills Receivable and Bills Payable book balances respectively.

Exercise V.

N. B.—Exercises needing adjustments should be taken up after reading the next chapter.

(1) The balances of N. Nation on 1st January, 1929 were as follows :—

Liabilities.		Assets.	
W. Webb	£ 85	Cash in hand	£ 215
		Cash at bank	70
Capital	385	Stock on hand	120
		B. Brown	45
		G. Grey	20
	<hr/> £ 470 <hr/>		<hr/> £ 470 <hr/>

Jan.	2	Purchased Office furniture for cash	£ 25 10 0
"	2	Received a cheque from B. Brown for amount owing less $2\frac{1}{2}$ per cent.	
"	4	Paid Brown's cheque into bank	
"	4	Sold goods to S. Sanderson	21 1 6
"	4	Bought goods for cheque	36 5 0
"	5	Paid cheque for quarter's rent due at £ 5 per annum.	
"	6	Sold goods to T. Piper	18 15 0
"	6	Sold goods to B. Brown	27 4 6

Jan. 7	Bought from W. Webb	£ 42 10 0
" 10	Paid Gas account in cash	2 7 6
" 10	Bought goods of J. Jackson	34 0 0
" 10	Received cheque from G. Grey	10 0 0
" 10	Paid Grey's cheque into bank	
" 12	Sold goods for cash	84 5 6
" 14	Received cash from P. Piper for goods sold on 6th January and supplied him with a similar quantity of the same value	
" 14	Paid cash into Bank	25 0 0
" 15	Received goods from K. Kelley	7 5 0
" 15	Paid sundry expenses in cash	1 5 6

Estimating the value of goods unsold on January 15th at £ 175, make out a Profit and Loss Account, and a Balance Sheet after recording the above transactions in the proper books.

(2) On 1st January, 1912 Henry Hart had Cash in office, £ 120; Cash at Bank, £ 425 12s. 6d; Goods on hand £ 550 10s. Debtors; A. Allen, 210 15s. 6d; B. Best, £ 360 4s. 6d; C. Crane £ 120 7s. 6d; D. Dare, £ 175 10s. Creditors: E. Elay, £ 130 6s. 8d. F. Fish, £ 280 13s. 4d.

Find and credit his capital. Enter the transactions given below in suitable books, post them into the Ledger, draw out a Trial Balance, balance the accounts, and make out a Profit and Loss Account and a Balance Sheet.

1912

Jan.	1	Charge A. Allen interest on his overdue account	£ 1 1 8
"	2	Purchased goods with cheque	215 7 6
"	2	Received cheque in full dis- charge of D. Dare's Account	153 11 3
"		Wrote off his balance as Bad Debt,	
"	3	Received cheque from A. Allen	211 17 2
"	4	A. Allen bought Goods of me	180 12 6
"	4	Paid charges for him from office Cash	1 7 6
"	5	Received cheque from A. Allen	82 6 0
"	6	Sales to A. Allen	57 3 4
"		Paid wages from office cash	4 10 0
"	8	B. Best sent his cheque	351 0 0
"		Allowed him discount	9 4 6
"	9	Sold goods to B. Best	250 10 0
"		Paid Rent with cheque	20 0 0
"	10	Purchased from C. Crane	25 10 0
"	11	Received cheque from C. Crane	90 10 0
"		Discount allowed to him	4 7 0
"	12	C. Crane bought goods	110 8 4
"	13	Paid Rates with office Cash	6 3 4
"		Received a cheque for goods	150 6 8
"	15	Received cash for Bad Debt	16 5 0
"	16	Posted a cheque to E. Elay	127 10 0

Jan.	Discount allowed to us	£ 2 16 8
" 17	Bought goods of E. Elay	155 7 6
"	Drew cheque for self	25 0 0
" 18	Drew a cheque for E. Elay	105 7 6
" 19	E. Elay sold me goods	140 13 4
" 20	Paid wages with office cash	4 10 0
" 22	F. Fish bought goods	130 0 0
" 23	Posted a cheque to F. Fish	147 6 8
"	Discount allowed to us	3 6 8
" 24	Purchases from F. Fish	245 4 10
" 25	Bought Goods from K. King	78 2 6
" 26	Sent K. King a cheque for half the cost of the above goods.	
" 27	L. Lane bought goods of me	120 1 3
" 29	Sent Cash to bank	500 0 0
" 31	Interest on Capital	6 13 4
	Goods on hand	841 3 8

(3) Record the following transactions in the cash and other books and prepare accounts. The assets and liabilities of a trader on 1st July, 1926 were: Cash Rs. 8,500, Goods Rs. 15,700, Bills Receivable Rs. 9,500, Bills Payable Rs. 6,000, due by Mr. W. Jones Rs. 4,300, due by Mr. H. Smith Rs. 3,500, due to Mr. S. Hill Rs. 2,500, and due to Mr. W. Gross Rs. 3,000. The net capital at starting was Rs. 30,000.

4th July, sold goods for cash Rs. 2,500.

7th July, discounted bills receivable for Rs. 5,000 and received cash for the same Rs. 4,800.

9th July, paid salaries Rs. 300, and other charges Rs. 150.

10th July, bought goods on credit from Mr. S. Hill Rs. 4,000 and accepted his draft for the amount.

16th July, bills payable for Rs. 500 paid.

20th July, received Rs. 2,950 from Mr. W. Jones and allowed him a discount of Rs. 150.

25th July, sold goods on credit to Mr. H. Munro for Rs. 4,500 and drew on him for the amount.

25th July, paid sundry charges Rs. 23.

2nd August, paid rent Rs. 250, salaries Rs. 300, and other charges Rs. 150.

7th August, paid Mr. W. Gross Rs. 2,900 and was allowed a discount of Rs. 100.

15th August, Mr. W. Jones became bankrupt and paid a dividend of 12 annas in the rupee.

16th August, took Rs. 300 for private expenses.

22nd August, sold goods to Mr. H. Smith on credit for Rs. 10,500.

24th August, received Mr. H. Smith Rs. 5,850 and allowed him a discount of Rs. 150.

27th August, the acceptance to Mr. S. Hill for Rs. 4,000 honoured today.

31st August, allow interest on capital at 6% per annum. Allow Rs. 50 interest to Mr. S. Hill on balance of his account and charge Mr. H. Smith Rs. 35 interest. Stock on hand Rs. 8,720.

(4) Enter the following transactions in the subsidiary books, post, make T. B., close accounts, and Draw B/S:—

April,	1.	The cashier had in hand	Rs. 2000	0	0
"	2.	Paid into Bank	1500	0	0
"	3.	Bought from Prince & Co., 500 yds. of cloth.	195	0	0
"	4.	Received from Gopal Das 320 yds. of Cloth	40	0	0
"	4.	Recd. from Bank	40	0	0
"	4.	Paid Gopal Das	40	0	0
"	5.	Sold Wachaspati 120 yds. of cloth	30	4	6
"	6.	Recd. from Wachaspati	10	0	0
"	6.	Bought from Gopal Das cloth	217	11	6
"	8.	Paid Fire Insurance Premium by cheque	4	10	0
"	9.	Forwarded Wachaspati cloth	59	6	0
"	10.	Bought for cash, cloth	12	10	0
"	11.	Paid into Bank	20	0	0
"	11.	Recd. from Damodar Das Cheque	10	0	0
"	12.	Bought from Wachaspati 300 yds. cloth	66	0	0
"	14.	Sent Damodar Das goods	54	0	0
"	15.	Sold goods for cash	14	10	6
"	16.	Bought from Gopal Das goods	20	0	0
"	19.	Bought from Jainti Pd. goods	215	0	0
"	23.	Paid Rates by cheque	5	5	0
"	26.	Cash sales	400	0	0

April 30.,	Paid into Bank	Rs. 350 0 0
" 30.	Paid salary in cash	35 0 0
	Value of Goods unsold	399 10 0

(5) Write the following transactions in the proper books, post them, close the ledger and present a Balance Sheet and Trading and Profit and Loss accounts.

January 1st 1925, Cash on hand Rs. 1,750; Cash in bank Rs. 6,200; Goods on hand Rs. 9,500; Premises valued at Rs. 12,000; Furniture valued at Rs. 750; Due to Sams & Co. Rs. 7,800; Due by Tata & Co. Rs. 2,700; Due by Siva & Co. Rs. 2,600; Due by Murti & Co. Rs. 7,500.

- Jan. 10. Bought goods of Murti & Co. Rs. 3,500.
 " 15. Drew on Murti & Co. @ 1 M/D. for Rs. 4,000.
 " 20. Sold goods to Siva & Co. Rs. 5,600.
 " 25. Drew on Siva & Co. @ 30 D/D. in favour of Sams & Co. Rs. 7,000.
 " 30. Paid salaries and charges in cash Rs. 50; and by cheque Rs. 200.
- Feb. 5. Bought goods of Rath & Co. Rs. 5,700.
 " 9. Accepted Rath & Co. draft @ 1 M/D.
 " 15. Sold goods receiving a cheque in payment Rs. 1,500.
 " 18. Murti & Co's, acceptance paid at Bank Rs. 4,000.
 " 25. Bought goods giving cheque Rs. 250; Paid for repairs to premises by cheque Rs. 500.
- Mar. 5. Sold goods to Murti & Co. on credit Rs. 6,700.

- Mar. 10. Received from Murti & Co. a cheque for Rs. 6,500 and allowed them a discount of Rs. 200.
- " 12. Our acceptance to Rath & Co. paid at bank.
- " 15. Bought goods of Siva & Co. on credit Rs. 4,000.
- " 17. Paid Siva & Co. cash Rs. 3,750 and was allowed a discount of Rs. 200.
- " 22. Sold goods to Rath & Co. on credit Rs. 3,500 and drew on them @ 1 M/D. for Rs. 2,500.
- " 25. Sold goods to Murti & Co. on credit Rs. 4,500 and drew on them @ 60 D/D. for Rs. 2,000.
- " 30. Paid salaries and charges cash Rs. 250.
- " 31. Allow depreciation on premises Rs. 120, and on furniture Rs. 30. Allow interest on capital @ 4% per annum. Value goods on hand @ Rs. 4,000.

(6) A owes B a sum of Rs. 1,00,000 for which B draws a 3 m/d. bill on A, adding interest at the rate of 6 per cent. per annum. One month afterwards B discounts the Bill with C, the rate of discount charged being 5 per cent. per annum, and he pays the proceeds into his banking account. A is unable to meet the Bill at maturity, and B. pays it. At the same time B. draws a fresh 3 m/d. bill on A. for the amount owing, and when accepting the Bill A hands B cash for 3 months' interest on the amount of the bill. This second Bill is duly met at maturity.

Show the Journal entries (with dates and narration) that B would have to make to record these transactions.

(7) A, for the temporary accommodation of himself and his friend B. draws a bill on the latter for Rs. 2,000. On receiving it duly accepted by B, A discounts the same with his bankers and receives Rs. 1,980. One-third of this amount is remitted to B. On the due date, A remits the balance to B. to enable the latter to meet the bill. B honours the Bill by payment.

Draft entries in the books of A and B respectively to record the above and open accounts.

(8) A sold goods of £ 2,000 to B taking a bill due three months thereof dated 1st July, 1920. On 4th August, A discounted the bill at 5 per cent. per annum with bankers.

At maturity, the bill was returned by bankers dishonoured with £ 5 expenses. B. Paid £ 500 and the expenses, and gave another bill at 3 months for £ 1,500 and 6 per cent interest, but before maturity, he had become bankrupt, and ultimately paid his creditors 12s. in the £.

Make the entries in A's books, recording the above transactions.

(9) Jones for the mutual and temporary accommodation of himself and Brown, draws upon the latter a B/E. at 3 m/d. for £ 500 dated 1st January, 1926. Jones discounts the bill immediately at his bankers, the rate of discounts being 5 per cent and sends half the proceeds to Brown. Brown, for a similar purpose, and at the same time, draws a bill at 3 m/d on Jones for £ 500. This he discounts at his bankers at 5 per cent

and sends half the proceeds to Jones. Brown becomes bankrupt on 31st March, 1926 and a first and a final dividend of 5 s. in the £ is paid on his estate on 30th June, 1926 Write up Brown's account in Jones' books Assume in each case, that one-half of the charge for discounting the bill is chargeable to Brown and one half to Jones.

(10) On 1st January, A draws on B at three months for Rs. 1,000 and agrees that the proceeds of the bill should be shared equally. He discounts the acceptance with the Lucknow Bank Ltd., receiving Rs. 990 in cash, of which he hands B. Rs. 495. On 31st March, in order to provide the funds to meet the bill, B draws on A for Rs. 1,100 at three months and discounts the acceptance, receiving Rs. 1,090 in cash, and hands A Rs. 44. On 29th June, A becomes insolvent. B has to meet both bills. On 1st October, a first and final dividend of eight annas in the rupee is received by B out of A's estate.

Give Journal entries (with detailed explanations) to record the above transactions in B's Books and write up A's account.

(11) (a) Journalize the following transactions:—

March 5th	I sold goods to H. Richardson for £ 700 and received his acceptance 4 m/d for that amount.
,, 15th	I discounted the acceptance at my bank for £ 694.

June 8th Richardson's acceptance was returned dishonoured. Noting charges paid by my bankers 5s. 6d.

" 10th I agree with Richardson to renew the acceptance for £ 710-5-6.

(b) Write entries in the Bill Book also.

(12) For the mutual accommodation of P & Q, P draws a bill on Q for Rs. 1500. Q accepts the bill and returns it to P. P discounts the same with his bankers and receives Rs. 1464. The proceeds are shared between P and Q in proportion to 2:3 respectively. On the due date P remits his share to Q who meets the bill.

Pass journal entries in the books of P & Q to record the above transactions.

(13) (a) Journalise the undermentioned transactions of Modi & Co. post the journal into the ledger and make out a Trial Balance, and prepare Trading and Profit and Loss accounts and the Balance Sheet.

1928.	Rs.
Jan. 1 Cash on hand	2220
Cash in bank	3,690
Goods on hand	6,890
Bills Receivable	4,900
Bills Payable	1,850
Due by Messrs. Cooper & Co.	3,500
Due to Messrs. Brahma & Co.	2,560
" 6 Bills Receivable paid at bank	4,900

Jan.	7	Sold goods to Messrs. Smith & Co and drew on them for the amount at 2 m/d	2,500
"	11	Accepted Messrs. Brahma & Co's. draft at 3 m/d for	2,000
"	18	Bought goods from Messrs. Nabar & Co.	3,500
"	22	Paid Messrs. Nabar & Co. a cheque for	2,700
Feb.	10	Messrs. Smith & Co's. acceptance discounted at bank and the proceeds credited to account	2,480
"	14	Bills payable paid at bank	1,850
"	20	Sold goods to Messrs Smith & Co.	3,600
"	22	Cheque drawn for private expenses	600
"	23	Paid Messrs. Nabar & Co., in final settlement of accounts a cheque	750
Mar.	10	Messrs. Smith & Co's acceptance duly honoured at bank.	2,500
"	14	Received from Messrs. Smith & Co. a cheque for	2,800
"	20	Accepted a composition of twelve annas in the rupee from Messrs Smith & Co. on the amount due.	
"	27	Rent, salaries and other charges during the quarter paid	1,360
"	29	Cash sales paid into bank	5,200
"	31	Charge Messrs. Cooper & Co. interest at 6 per cent per annum; Allow interest on capital at 6 per cent. Goods on hand	2,500

(14) Journalise the undermentioned transactions of Messrs Jog and Co., post the Journal into the Ledger and make out the Trading, Profit and, Loss accounts and the Balance Sheet.

1923.

		Rs.
July.	1	Cash on hand
		1500
		Cash in bank
		12,500
		Goods on hand
		65,000
		House valued at
		1,75,000
		B. R. on hand
		27,000
		Due by Messrs Jones & Co.
		16,000
		Due to Messrs Mehta & Co.
		15,500
		Bills payable
		24,000
July	10	Sold goods on credit to Messrs Jones & Co.
		30,000
"	21	Bills receivable honoured at bank
		12,000
"	28	Drew on Messrs Jones & Co. 1 m/d
		30,000
Aug.	8	Bills receivable discounted at bank the banker charging a discount of Rs. 200, and crediting the proceeds
		14,800
"	20	Paid Messrs. Mehta & Co. a cheque They allowed a discount of
		300
"	31	Messrs. Jones & Co's acceptance honoured at bank
		30,000
Sept.	4	Bills payable paid at bank
		24,000
"	10	Sold goods receiving in payment a cheque for
		18,000
"	"	Paid the cheque to the credit of account at bank.
"	15	Paid for repairs to house
		1,000

Sept. 21	Bought goods of Messrs. Patel & Co. for	16,000
	Accepted their draft @ 1 M. D.	10,000
" 23	Collected house rent and paid it into bank	1,500
" 25	Accepted a composition of 14 annas in the rupee from Messrs. Jones & Co. and paid it into bank.	
" 28	Cash paid for office expenses	200
	Paid salaries etc., by cheque	600
" 30	Allow interest on Messrs. Mehta & Co's. account	150
	Allow interest on capital at 4 per cent	
	Depreciation of Houses	1,750
	Value of goods on hand	45,500

(15) Enter the following transactions in the proper subsidiary books. Post them in the ledger, prepare Trading and Profit and Loss accounts and the Balance Sheet.

January 1st. Cash on hand Rs. 9,800; Cash in Bank Rs. 15,400; Goods on hand Rs. 700; Due by Williams & Co. Rs. 5,200; Due by Jones and Brothers Rs. 4,500; Due to Kay & Co. Rs. 6,700; Due to Raja & Co. Rs. 6,900;

Jan. 10. Bought goods for a cheque Rs. 8000;

" 20. Sold goods to Wilson & Co. Rs. 6,000 and drew on them for the amount @ 30 D. D.

Jan. 21. Wilson & Co. returned goods worth Rs. 500.

Feb. 8. Endorsed to Kay & Co., Wilson & Co's acceptance Rs. 6,000

Feb. 18. Received from Jones & Brothers a cheque for Rs. 3,300 and allowed them a discount of Rs. 200;

Feb. 20. Bought goods from Raja & Co. Rs. 5000.

Feb. 22. Returned to Raja & Co. goods of Rs. 320.

Mar. 3. Paid Raja & Co. by cheque Rs. 6,900;

„ 15. Paid salaries by cheque Rs. 875 and wages from cash Rs. 300;

Mar. 28. Paid rent for January and February Rs. 400; Rent for March yet due Rs. 200;

Mar. 30. William & Co. became insolvent and paid into our bank dividend of annas 12 in the rupee;

Mar. 31. Allow interest on capital @ 4 per cent, Value goods on hand and at Rs. 10,000. Reserve 5 per cent on Debtors and Rs. 350 for legal expenses.

CHAPTER VI.

Adjustments

The preparation of Trading account, Profit and Loss account and Balance Sheet presented very little difficulty in the case of the examples worked out in the third chapter as there were no adjustments except the inclusion of the closing Stock. In actual business life one rarely meets with such a simple case, and so at the time of closing the following important matters are to be taken into consideration and due adjustments made before preparing Trading, and Profit and Loss accounts, and a Balance Sheet. In all these cases however the period under consideration must be carefully borne in mind, or else if the period is only of six months and adjustments are made for a year the result will be quite wrong.

- I. Closing Stock.
- II. Interest on Capital and Drawings.
- III. Depreciation.
- IV. Bad and Doubtful Debts.
- V. Discount.
- VI. Apportionment of expenses.
- VII. Outstanding liabilities.
- VIII. Accrued income.

Sometimes items given in a Trial Balance are mixed up and not given separately as Dr. and Cr. items. In such a case the first thing is to sort out the items in two sections Dr. and Cr. and to see that the total of each Side is the same. In some cases 'Capital account' is not given and the difference is to be adjusted by introducing that account. While sorting out the items it will be of great help to remember the following rules:—

(a) Debit balances are either assets or losses.

(b) Credit balances are either liabilities or gains.

If with all this the difference cannot be made up it should be adjusted, by introducing a temporary account called a suspense account.

I. Closing Stock—This shows the amount of goods on hand and the figure is got by actually preparing the list of goods on hand and pricing them. The price at which they are valued is the cost price or the market price *whichever is lower*. The principle to be borne in mind is that the value of the Stock should never be more than the actual cost of the goods.

The journal entry will be:—

Closing Stock account Dr.

To Trading account.

The amount of the closing stock will appear in the Balance Sheet as Asset.

II. Interest on Capital and Drawings—It is the practice in some firms to allow interest on capital and to charge interest on drawings during the period

covered. This will help the firms to know the real profit or loss, because if the amount of interest is not charged, the idea of the real result of the business working will not be got. The entries will be:—

(a) For allowing interest on capital,

Interest account Dr.

To Capital account.

(b) For charging interest on drawings:—

Drawings account Dr.

To Interest account

The interest account will be carried over to the Profit and Loss account.

III. Depreciation:—It is the gradual shrinkage in the value of an asset and is chiefly due to the wear and tear, and obsolescence in the case of machinery or expiration of time in the case of lease, or patent, and a fall in market price in the case of investments. As a portion of the shrinkage or decline in value occurs in every period, it is essential to charge depreciation to the working of that period. Generally a certain percentage of the amount of the asset or some amount given is charged to this account. The entry in such a case will be:—

Depreciation account Dr.

To Asset account:—

(Machinery, Building etc.)

The amount of depreciation will be a charge against the Profit and Loss account and the same amount will be deducted from the asset.

IV. Bad and Doubtful Debts—Debts are considered bad when there is no hope of recovering them which is usually due to debtors becoming insolvent, or the debt becoming time-barred by the Limitation Act or by the debtor's absconding. Such a debt must not appear as an asset and hence it is written off to Bad Debts account and ultimately to Profit and Loss account. Suppose Rama is a debtor for Rs. 100 and he has become insolvent and only annas twelve in a rupee are received from him the entry will be :—

Sundries

Cash	Dr.	Rs. 75.
Bad debts	Dr.	" 25.
To Rama		Rs. 100

And then at the time of closing the books:—

P. & L. account	Dr.	Rs. 25.
To Bad debts		Rs. 25.

The effect of the first entry will be to credit the debtor's account for the sum due (amount received plus bad debts) and so his account will be squared.

By the second entry the balance of the actual bad debts is transferred to Profit and Loss account.

If by chance the whole or part of the money written off as bad debts is lateron recovered the amount must not be credited to the debtor's account but to 'Bad Debts Recovered account' as his account has already been squared by transferring the amount to

Bad Debts account. The amount of bad debts when received will be treated as under:—

Cash	Dr.	Rs. 25
To Bad Debts Recovered A/c		Rs. 25.
Bad Debts Recovered A/c	Dr.	Rs. 25
To Profit and Loss account		Rs. 25.

The effect of these entries will be to credit the same account (P. & L. account) to which the amount of bad debts was debited.

The above procedure is for debts which have been actually declared as bad; but in the course of business, every year there is generally some account which is not recoverable, and so some sort of provision is necessary for such an amount. This is done by setting apart some amount for Doubtful Debts Reserve or more commonly known as 'Bad Debts Reserve Account', because if this is not done the Balance Sheet will not be showing the true state of affairs as far as their recovery is concerned.

The amount to be set aside is calculated either by going over the debtors' accounts in the ledger and forming an estimate of the likely doubtful debts or by fixing some percentage. The entry for this is passed in one of the two ways:—

P. & L. Account	Dr.
To Reserve for Bad or Doubtful Debts Account.	

The other method is as follows:—

Bad debts account Dr.

To Reserve for Bad or Doubtful Debts.

and then—

P. & L. account Dr.

To Bad Debts account.

In either case the effect will be the same. In the second method the objection is that the amount is not an actual bad debt and so it should not be charged to that account and if comparison be made with other years the conclusion will be inaccurate.

The first method is objected to on the point that if we will have to pass such an entry before the Trial Balance is prepared we shall have to open Profit and Loss account even before a Trial Balance.

In some cases there are some actual bad debts and besides some reserve is required then there are two possible methods.

(a) Charge the actual bad debts to Profit and Loss account and also the amount of the required reserve separately as under:—

P. & L. account Dr.

To Bad Debts account

(For the actual bad debts)

and

P. & L. Account Dr.

To Bad Debts Reserve A/c.,

(For the amount of the required reserve.)

(b) Transfer the amount of the actual bad debts to the Reserve for bad and doubtful debts and then debit the Profit and Loss account with the total amount of the required reserve as under:—

Bad debts Reserve	Dr.	
To Bad debts A/c.		
and		
P. & L. account	Dr.	
To Bad Debts Reserve A/c.		

For the additional amount required to make up the balance of the reserve.

Additional difficulty is presented when there is an existing balance of the Bad Debts Reserve and adjustments are required to be made. Three cases are possible the balance of existing reserve may be (i) less, (ii) more, or (iii) just the amount that is required; in each case the entries will be different. Let us take an example. There is a Bad Debts Reserve account amounting to Rs. 650, the actual bad debts during the year amount to Rs. 150 and the balance of Debtor's account is Rs. 15,000 and a reserve of 4% is required.

Here again two methods are possible:—

(1) Credit the P. and L. Account with the existing reserve and debit the same account with the amount of the actual bad debts and the amount of the reserve required.

The entries will be:—

(a) Bad Debts Reserve A/c	Dr.	650	
To P. and L. A/c			650
(For the amount of the old reserve.)			

- (b) R. and L. A/c Dr. 150
 To Bad Debts 150
 (For actual bad debts.)
- (c) P. and L. A/c Dr. 600
 To Bad Debts Reserve A/c 600
 (For the amount of the new reserve)

P. & L. Account

To Bad Debts	150	By Bad Debts Reserve	650
To Bad Debts Reserve	600		

The actual charge on this year's account therefore will be Rs. 100 i.e. $[(600 + 150) - 650]$.

In this method the entries will be the same no matter whether the amount of the new reserve is to be more, equal or less than the old one.

(2) In the second method the actual bad debt is to be transferred to the Bad Debts Reserve account and on the debit side is written the required amount of reserve as 'To balance'. At the time of closing the books, the difference between the two sides is to be transferred to the P. & L. account.

The entries will be:—

- (a) Bad Debts Reserve account Dr. 150
 To Bad Debts account 150
- (b) P. and L. account Dr. 100
 To Bad Debts Reserve account 100

Bad Debts Reserve

To Bad Debts	150	By Balance	650
To Balance	600	„ P. & L. account	100
	750		750
		By Balance	600

It will be seen that the same result is got by both the methods *i.e.* a charge of Rs. 100 on the P. & L. account.

In this case the debit side is in excess but as sometimes happens the credit side is more than the entry (b) would be.

Bad Debts Reserve account Dr.

To P. & L. account Cr.

It is very important to note that the direction as regards the Reserve must be very carefully noted. For instance there is a world of difference in saying 'raise the reserve to Rs. 600 and raise *by* Rs. 600.' In the first case it is meant that the amount required is Rs. 600 and in the second that the old reserve should be *increased* by Rs. 600.

The amount of the Bad Debts Reserve is not written in the Balance Sheet as a liability but is shown as a deduction from the Debtors on the assets side.

V. Discount.—It is usual in business to make a reserve for discount on debtors as well as on creditors. Some accountants however are of opinion that no such reserve should be created and this item should be taken into account in that period in which cash is paid to creditors or received from the debtors. The treatment of this reserve is just the same as in the case of a Bad Debts Reserve as far as debtors are concerned and just the opposite as far as creditors are concerned. The easiest method is to pass the following entries:—

(i) For Discount Reserve on Debtors' balances,
P. & L. account Dr.

To Discount Reserve A/c
(on debtors' balances)

(ii) For Discount Reserve on creditors' balances,
Discount Reserve A/c (on creditors' balances) Dr.

To P. & L. account.

In each case the reserve will not be shown separately in the Balance Sheet but as a deduction from the debtors or creditors accounts as the case may be.

There is one thing which is extremely important and which is a stumbling block to many. It must be borne in mind that while making a reserve for discount on debtors' balances, the amount for calculating the discount is not the debtors' balance but this balance less the amount of Bad Debts Reserve. It will look so absurd if done otherwise because how can one think of allowing discount on the amount which has been already assumed as a bad debt.

For instance if the balance of Debtors' account is Rs. 6,000 and $2\frac{1}{2}\%$ is to be reserved for Bad Debts and the same percentage for Discount then the reserve for discount will be Rs. 146-4-0 and the debtors' figure will be shown in the Balance Sheet as follows :—

		Rs.	
Debtors		6,000 0 0	
Less bad debts Res. [$2\frac{1}{2}\%$ per cent on Rs. 6000]	150 0 0		
Less Discount Reserve • $2\frac{1}{2}\%$ per cent on [Rs. 6000—150] Rs. 5850.	146 4 0		
		296 4 0	5,703 12 0

VI. Apportionment of expenses—Sometimes money is paid in advance for Rent, Rates, Advertising Fire Insurance and other items. It is for this reason that if at the time of preparing the P. & L. account and the B/S. the period for which the amount is paid in advance has not expired it will be wrong to debit the P. & L. account with the whole of the amount and so an apportionment of such expenses is necessary. This is done by charging only the amount covered by the period and reserving the balance for the next year by debiting Asset Prepaid account and crediting P & L. account. Suppose on the 1st April, 1927 Rs. 1200 are paid for rent for full one year and the B/S for the year

is to be prepared on 31st December, 1927 the entry will be:—

Rent Prepaid account	Dr. 300.	
To P. & L. account		300.

So the P. & L. account will not be charged for Rs. 1200 but less by Rs. 300 *i. e.* Rs. 900, because only nine months have passed, and in the B/S. on the asset side will appear Rent Prepaid Rs. 300, (representing three months rent.) This will be reversed next year by the following entry.

P. & L. account	Dr.	Rs. 300.	
To Rent Prepaid A/c			300.

This will have the effect of charging proportionately the expenses to the periods concerned. There are however some expenses incurred and paid one or two years in advance. In this case the expenses will have to be proportionately charged to the accounts of the various years.

Similarly sometimes income is received before it is due in this case an entry just the reverse of the above is to be passed. Rs. 600 the rent of a building sublet is received in advance for one year ending 31st March 1928 and a B/S. is to be prepared on 31st December then the entry will be:—

P. & L. account	Dr. 150.	
To Rent received in advance A/c		150.

(Three months rent received in advance will be shown as liability in the B/S. and the entry will be reversed next year).

VII.—Outstanding Liabilities—At the time of closing generally items of expenses made remain unpaid. The charges for all such expenses must be debited to the P. & L. account of that period, and so due provision is to be made for such liabilities. Suppose rent is paid Rs. 360 a quarter *after* it becomes due; the first instalment being paid on 1st February then the successive instalments will be due on 1st May, 1st August, and 1st November. When the books are closed in December, then in the account books rent would have been for 10 months only and the rent for two months must be charged to this period and it is done by passing the following entry:—

Rent account Dr. Rs. 240.

To Landlord

Rs. 240.

(Being the rent for November and December @ 360/- a quarter).

Rent account will be a charge against Profit and Loss account and the Landlord account will be shown as a liability. If this is not done the profit figure of the period will not be correct as it will not have taken the rent of November and December into account.

VIII. Accrued Income—As there are outstanding liabilities, there are items of income which are due though not yet realised *e.g.* Interest is due (as on the day of closing) for three months @ 6% on a loan of Rs. 10000 given, then the entry will be:—

Outstanding Debtor's account Dr. 150

To Interest account

150.

The effect of this entry will be to take into account for calculating the profit of the period Rs. 150 which properly belongs to the period under review and thus showing the correct state of affairs.

When next year the interest is received that portion as is due for the last year is credited to the outstanding Debtor's account and the balance to the interest account.

All the entries given for adjustment after the Trial Balance are required to be treated on both the sides *i. e.* the double entry of each is to be made *e. g.* Rent to be paid for a quarter Rs. 400 will have to be treated thus:—

Rent account Dr.	400.
To Landlord	400.

Rs. 400 will be debited to Rent account and credited to the Landlord's account, but Rent account Dr. appearing in the Trial Balance will be treated once only *i. e.* it will be placed to the debit of the P. & L. account.

Sometimes there is a confusion when closing stock is given in the Trial Balance as a Dr. balance. This means that a double entry of the same has been made and the balance of the closing stock will not have to

be treated twice but only once *i. e.* Closing Stock will be shown only on the asset side of the Balance Sheet.

In the last chapter only the difference between the Trading account and P. & Loss account was given and roughly it was hinted as to what items should go to Trading account and to P. & L. accounts. The following chart will be of great use in this connection.

Trading Account.

To Stock (Opening)	By Sales
„ Purchases	Less returns
„ Less returns	
„ Wages (productive)	„ Stock (closing)
„ Carriage (Inwards)	„ Gross Loss transferred to P. & L. acc.
„ Coal, Coke, fuel etc	
„ Dock Charges (Inwards)	
„ Duty and freight (inwards)	
„ Packing material	
„ Motive power	
„ Materials consumed	
„ Gross profit transferred to P. & L. account.	

Profit. and Loss. Account.

To Gross Loss b/d	By Gross profit b/d
„ Wages (non-productive)	„ Discount
„ Carriage and cartage (Outwards)	„ Commission
„ Dock charges (outwards)	„ Interest
„ Duty and freight	„ Net Loss
„ Office expenses	
„ Trade expenses	
„ Printing charges	
„ Legal and account charges	
„ Discount	
„ Commission	
„ Interest	
„ Stable expenses	
„ Postage and stationery	
„ Advertising	
„ Bad Debts	
„ Rent Rates and Taxes	
„ Bank charges	
„ Insurance	
„ Lighting and heating charges.	
„ Repairs	
„ Depreciation	
„ Net profit	

The above chart contains almost all possible items that usually appear in Trading and P. and L. accounts. The principle adopted in this division is that **all**

purchasing as well as manufacturing expenses such as productive wages, carriage and cartage inwards, coal and coke etc. are charged to Trading account and all selling and distributive expenses as well as establishment charges such as salaries, rent etc. are charged to P. and L. account.

There is no legal ruling as regards this division and so many business houses sometimes do not follow this arrangement in case of a few items, but these form the exceptions. Below are explained some of the confusing items in the above charts.

Carriage—It is a charge for carrying the goods. Carriage Inwards *i. e.* charges for bringing the goods purchased is debited to Trading Account while carriage outwards *i. e.* charges for sending the goods is debited to P. & L. Account as it is a selling expense. If in the Trial Balance Carriage appears without the words Inwards or Outwards, it should be taken as 'Inwards' and so should be charged to Trading account. A foot note to that effect should however be given.

Coal, coke, fuel etc.—It is a manufacturing expense and so is charged to Trading account.

Cartage and Carting—This item includes charges for carrying goods from warehouses to docks or vice versa. These charges should be carefully sorted out into two parts *i. e.* buying expenses and selling expenses.

Duty, freight, Dock charges—Duty is the tax, freight is the charge for conveying goods by sea and dock charges are the charges levied on ships and cargoes when entering and leaving docks. If these charges are on goods coming, they are Inward charges, if otherwise, outwards.

Packing material—Charges for paper, canvas, string etc. are included under this item. When this material is for putting the goods in the market it is charged to Trading account but if it is for the purpose of selling it will be charged to the P. & L. account.

Example—From the following T. B. prepare Trading, Profit & Loss a/cs and B./S. of Mr. Hari Ram as on 31st December, 1927.

Dr. Balances.	Rs.	A.	P.	Cr. Balances.	Rs.	A.	P.
Printing Charges	205	12	3	B/P	2075	7	9
Cash	493	9	9	Sales	13721	12	6
Stock	3328	4	9	Loan	10400	0	0
Drawings	1629	0	0	Return (out- wards)	393	4	0
Postage	209	12	9	Discount earned	304	3	3
Debtors	4620	10	9	Commission earned	393	8	9
Dock charges, (Inwards)	408	7	9	Interest earned	309	4	6
Interest	419	6	9	Capital	22382	13	0
Plant and Machinery	10757	3	0				

Trade Expenses	192	11	9
Bad Debts	181	6	6
Bank	859	11	3
Premises	2540	15	0
Advertising	450	0	0
Taxes	107	3	9
Insurance	221	8	0
Repairs	119	5	0
Rent	560	0	0
Office Expenses	314	7	6
Buildings	9987	12	6
B/R	1054	5	9
Discount	187	14	0
Returns			
[Inwards]	904	7	0
Purchases	7827	5	6
Wages (Produc-			
tive)	1070	2	0
Wages (Unpro-			
ductive)	420	5	0
Carriage			
[inward]	517	8	0
Bank charges	37	8	0
Coal, Coak			
fuel etc.	353	9	6
Rs.	49,980	5	9

49,980 5 9

Stock on 31-12-27 Rs. 6,388 12 9. Interest at the rate of 4% per annum is to be credited to the Capital. Depreciate Plant and Machinery, Premises and Buildings by 5%. Create a reserve of 5 per cent on debtors for bad and doubtful debts and of the same percent for discount. Rs. 105 are due to labourers for work in the office. Rent is paid in advance upto the end of Feb. 1928 @ Rs. 40 p.m. Rs. 100 is due to us for our commission and Rs. 50 is paid in advance for insurance. Carry forward $\frac{2}{3}$ the amount of Advertising.

Trading Account.

Jan. 1	To Stock (opening)		Dec. 31	By Sales	13,721 12 6
Dec. 31	Purchases	7,827 5 6		Less returns	904 7 0
"	"				12,817 5 6
"	Less returns	333 4 0			
"	Wages (productive)		"	Stock [closing].	6,388 12 9
"	Carriage (Inward)				
"	Coal, Coke and fuel etc.				
"	Deck charges and duty (Inwards)				
"	Gross profit.				
		Rs. 19,206 2 3			Rs. 19,206 2 3

Profit and Loss Account.

To Wages (unproductive)	420 5 0					6,094 0 9
Add Wages	105 0 0					304 3 3
Office expenses		525 5 0				
" Travelling exp.		314 7 6				
" Printing Charges		192 11 9				
" Discount		205 12 3				393 8 9
Add Reserve	187 14 0					
Interest	219 7 9	407 5 9				100 0 0
Add adjusted interest	419 6 9					
Postage etc.	895 5 0	1,314 11 9				498 8 9
" Advertising	450 0 0	209 12 9				
" Less adjusted	300 0 0	150 0 0				
" Rent	560 0 0					
" Less paid in advance	80 0 0	480 0 0				
" Taxes etc.		107 3 9				
" Bank Charges		37 8 0				
" Repairs		119 5 0				
" Insurance	221 8 0					
" Less prepaid	50 0 0	171 8 0				
" Depreciation on						
" Plant and Machinery	537 13 9					
" Building	499 6 4					
" Premises	127 0 9	1,164 4 10				
Bad debts	181 6 6					
Add Reserve	231 0 6	412 7 0				
Net Profit		1,389 9 11				
		7,201 1 3				7,201 1 3

Exercise VI.

(1) On 1st Jan., 1912 the Reserve for Doubtful Debts showed a credit balance of £900. During the year the B/D amounted to £700. The Drs. on 31st Dec., 1912 were £2000 and 5 per cent. Reserve for doubtful debts was required to be maintained. The B/D during the year 1913 amounted to £1350. On 31st Dec., 1913 Drs. were £25,000 and 5 per cent. Reserve for B/D is to be kept. In 1914, the B/D are £300 and the Drs. at the end of the year amount to £13,000, and 5 per cent. Reserve for B/D and a 5 per cent. Reserve for Discount are to be kept. Show how these items will appear in the profit and loss A/c and B/S of these three years and also the Reserve a/cs.

(2) Show the ledger entries to describe the following:—

(a) 1905 January 1st Bad Debts Reserve £860 standing in the Books.

(b) 1905 December 31st total of the Bad Debts Account, 1,000.

(c) 1905 December 31st Adjust the Reserve Account so that it may show a Reserve of $7\frac{1}{2}$ per cent, on the book debts which are £15,000.

(d) Assuming that the business has been continued for another twelve months, i.e. upto 31st December, 1906, the Bad Debts are then £1,100. Adjust the Reserve so that it may show a reserve of $7\frac{1}{2}$ per cent on the amount of Book Debts which are then found to be £12,674.

(3) The following Trial Balance was extracted from the books of A. B. on June 30, 1918:—

Capital		26,070
Cash	770	
Stock	14,505	
Purchases	37,005	
Debtors	9,520	
Plant and Machinery	15,000	
Sales		53,800
Wages	4,980	
Office Expenses	615	
Salaries	3,375	
Rent, Rates and Insurance	1,225	
Creditors		7,565
Trade Expenses	530	
Returns Inwards	1,140	
Returns Outwards		1,230
	<u>88,665</u>	<u>88,665</u>

The Stock in Trade on June 30, 1918 was valued at Rs. 15,520. On the same date Rs. 225 were due for Rent and Rs. 120 for Wages. Carry forward Rs. 50 for unexpired Insurance. Prepare Trading and Profit and Loss A/c and B/S after providing 10% depreciation for Plant and Machinery.

(4) The following balances appear in the books of Mr. Hewett on December 31st, 1927.

Buildings	50,000	Travelling	
Machinery	50,000	Expenses	1,200
Furniture	1,500	Bank	13,640

Stock	45,000	Taxes	900
Purchases	3,00,000	General Charges	400
Office establishment	13,000	Sales	4,25,000
Sundry Debtors	50,000	Commissions (cr.)	2,500
Petty Cash	660	Sundry Creditors	45,000
Factory wages	35,000	Capital	68,800
		Loan	20,000

(a) Allow Depreciation for the year at the rate of $2\frac{1}{2}$ per cent on Buildings, $7\frac{1}{2}$ per cent on Machinery and 10 per cent on Furniture.

(b) Rs. 2,500 were due for *Factory* wages for December but were not paid till the following month.

(c) Make a provision of Rs. 2,500 for Bad Debts.

(d) Goods on hand on December 31st 1927 are worth Rs. 50,000.

Prepare Trading a/c P. & L. a/c and Balance Sheet.

(5) The following were the ledger balances on 31st December 1918 from which you are required to prepare the Trading Account, the Profit and Loss Account and a Balance Sheet as on that date, giving effect to the undermentioned adjustments :—

Capital	£ 40,000	Discount	1,200
Cash at Bank	2,033	Insurance premium	130
Purchases	34,900	Interest and Bank	
Sales	91,000	charges	240
Returns inwards	267	Bad Debts	380
Returns outwards	500	Sundry debtors	35,000

Stock in hand (1-7-1918)	21,500	Sundry creditors	18,000
Salaries	1,000	Land and Build- ings	14,800
Manufacturing wages	19,050	Plant and Machi- nery	4,000
General expenses	6,330	Patents	5,000
Manufacturing charges	5,320	Reserve for Bad Debts (1-7-1918)	1,800
Rates and Taxes	150		

Stock 31st December, 1918 £ 15,800.

1. Depreciate Plant and Machinery at 6 p. c. per annum; Land and Building 3 p. c. per annum; Patents 10 p. c. per annum.

2. Carry forward £30 of the Insurance premium.

3. Make a reserve of 5 p. c. on the Sundry debtors for bad debts and also for discount.

(6) Prepare Trading and Profit and Loss Account and Balance Sheet of Khudabux from the following Trial Balance as it stood on 31st December 1927.

Capital		15,000
Cash at Office	1,000	
Cash at Bank	7,500	
Stock on 1-1-1927	8,000	
Furniture	2,000	
Rent paid (January to October)	1,000	
Purchases	25,000	
Sales		31,000
Salaries	1,550	
Wages	700	

Interest		700
Discount		500
Trade charges	1,000	
Debtors	2,500	
Creditors		3,300
Bad Debts	250	
	<u>50,500</u>	<u>50,500</u>

The following adjustments are to be made:—

Calculate interest on Capital at 6 p. c. and depreciation of furniture at 5 p. c. Provide for Rent in arrears for November and December. Value of the stock on hand Rs. 14,000.

(7) From the following Trial Balance at 30th June, 1911, prepare Trading Account, profit and loss Account and Balance Sheet.

Capital		24,503 19 0
Drawings	750 0 0	
Sales		76,793 18 0
Purchases	53,698 10 0	
General Expenses	2,511 11 0	
Premises	1,000 0 0	
Stock	21,218 9 0	
Coal and Power	2,242 5 0	
Rates and Taxes	315 4 0	
Debtors and Creditors	6,287 18 0	2,511 12 0
Wages	7,206 12 0	
Discounts	641 10 0	897 14 0
Bad Debts Reserve		50 18 0

Commission	317 4 0	
Horse Expenses	1,999 16 0	
Cash in hand	84 11 0	
A. B. Bank		1,255 1 0
Income Tax	283 16 0	
Oil for Machinery	71 12 0	
Machinery	14,217 11 0	
Loan of, A. Jones		6,833 7 0
Total	<u>£112,846 9 0</u>	<u>£112,846 9 0</u>

Stock at the end of the year was £23,339 11s. 0d. After creating a Bad Debts Reserve of 5 per cent, on Debtors provide for discount at $2\frac{1}{2}$ per cent. on Debtors and Creditors; provide for depreciation of Machinery at the rate of 10 per cent. per annum; allow 5 per cent. interest on Loans and Capital (ignoring interest on Drawings):—

(8) From the following Trial Balance on 30th June 1922 prepare the Trading Account, Profit and Loss account and Balance Sheet:—

Capital	£ 991	Salaries	300
Plant and Machinery	425	Insurance	9
Stock 1-1-1922	956	Rent Received	19
Purchases	1,054	Bad Debts	26
Sales	7,039	Cash	81
Manufacturing wages	597	Travelling Expenses	143
Selling Expenses	465	Discount	70
		Bank interest	15
		Reserve for Bad Debts	70

Wages	1,754	Sundry Debtors	2,025
Carriage	59	Sundry Creditors	230
Advertising	65	Bank Overdraft	95
Rates and Taxes	185	Drawings	165
Office Expenses	50		

The stock on 30th June, 1922, was valued at £835.

(1) Allow Depreciation on Plant and Machinery at the rate of 10 p. c. per annum.

(2) Carry forward £ 50 for Bad Debts.

(3) Reserve for discount $2\frac{1}{2}\%$ on the sum expected to be recovered from the Sundry Debtors.

(9) The following is a Trial Balance of Mr. Madan Lal as on December 31st, 1918:—

Capital		30,000
Stock 1st January 1918	25,000	
Freehold Premises	10,000	
Purchases	50,000	
Wages (productive)	15,000	
" (Non-productive)	3,500	
Manager's salary	2,000	
Rates, Taxes and Insurance	1,200	
Interest	450	
Rent		100
Commission		30
Sales		90,000
Reserve for Bad and Doubtful Debts		820
Discount and Commission	1,750	
Carriage	2,000	

Bad Debts	250	
General Expenses	2,800	
Repairs	900	
Cash at Bank and in hand	1,100	
Plant and Machinery	27,000	
Sundry Creditors		28,000
Sundry Debtors	31,000	
Loan		25,000
	<u>1,73,950</u>	<u>1,73,950</u>

Provide for depreciation on Plant and Machinery $7\frac{1}{2}$ per cent and make a reserve of 5 per cent on Debtors for Bad and Doubtful Debts.

Adjust.

- (a) Unexpired insurance Rs. 300.
- (b) Rent Rs. 100 due but not received.
- (c) Allow interest 5 per cent on loan.

Stock at 31st December 1918 is Rs. 30,000.

Prepare Trading and Profit and Loss Accounts and Balance Sheet.

(10) From the following particulars extracted from the books of Atmaram prepare a Trading and profit and loss Accounts for the year ended 31st December, 1930, and also a Balance Sheet as on that date.

	Rs.	Stock-1st Jan.	65,892
Cash	125	Bank Overdraft	8,060
Bad Debts	790	Patents unexpired	1,560
Repairs to Buildings	56	Loan	17,750

Interest on Over-		Capital	• 1,50,000
draft	260	Freehold Pre-	
Rent received	260	mises (1st Jan.)	5,026
Plant and Machi-		Wages (Produc-	
nery	10,140	tive)	25,090
Salaries, etc.	3,140	Salaries	2,060
Rates and Taxes	1,578	Bad Debts reserve	
Debtors	5,175	(1st Jan.)	150
Sundry Trade		Sundry Creditors	9,086
Expenses	275	Outward Returns	1,500
Purchases	5,69,842	Sales	5,04,293

Value of Stock, 31st Dec., Rs. 1,20,550.

The following adjustments are necessary before closing the accounts:—

(a) Depreciation to be written off Plant and Machinery at the rate of $7\frac{1}{2}\%$ per annum, patents 15%, and Premises 5%.

(b) Provision for bad and doubtful debts at 5%.

(11) From the following Trial Balance as at January 1st., 1908 prepare Trading and profit and loss Accounts and Balance Sheet:—

	£	Cash in hand	25
Purchases (Materi-		Debtors	2,725
als)	16,000	Stable expenses	195
Discount (Dr. Bal-		Repairs	105
ance)	1,300	Sundry expenses	55
Wages (Produc-	•	Mortgage and Int.	
tive)	9,828	to date	3,050

Sales	30,000	Mortgage interest	150
Salaries	2,000	Buildings	4,000
Travelling Ex-		Machinery	1,500
penses	500	House and Carts	502
Carriage	200	Stock on 1st	
Insurance	150	January, 1907	5,750
Commissions	320	Capital	10,655
Rent and Rates	500	Creditors	2,100

Make provision for rent and Rates unexpired £30; Depreciation on Buildings at $2\frac{1}{2}\%$; Machinery at 5% ; Horses and Carts $7\frac{1}{2}\%$, Bad Debts £150; Liability for Insurance £20; Discount on Sundry Drs. and Crs. at $2\frac{1}{2}$ per cent; Stock on hand £6,075.

(12) From the undermentioned trial balance of Mr. Shri Ram prepare trading and Profit and Loss Accounts for the year ending 31st December, 1923 and also a Balance Sheet as on that date :—

Capital		45,600
Cash in hand	200	
Cash at Bank	1,500	
Salaries	1,250	
Manufacturing Wages	18,760	
Sales		1,14,500
Sundry Drs.	40,620	
Sundry Crs.		18,240
Stock on hand (1-1-1923)	20,500	
Purchases	44,680	
Insurance	180	
Bad Debts	310	

Patents	3,000	
Plant and Machinery	24,800	
General expenses	1,540	
Manufacturing Charges	9,700	
Land and Buildings	20,000	
Furnitures and Fittings	2,000	
Sales returns and allowances	300	
Purchases do.		620
Rates and Taxes	200	
Discounts	1,650	
Bad Debts Reserve		2,500
Bank Charges	270	
Loan		10,000
	<u>£191,460</u>	<u>£191,460</u>

Before closing the accounts the following adjustments to be made:—

- (1) Charge £250 for Manager's bonus.
- (2) Write off for depreciation: $7\frac{1}{2}$ per cent on Machinery and Plant; 5 per cent on Furniture and Fittings; and one-tenth of the value of Patents.
- (3) Bad Debts Reserve to be maintained at 5% of the amount owing by Sundry Debtors.
- (4) Carry forward £100 of the amount paid for insurance.
- (5) The value of the Stock on hand £8,000.

(13) The following are the Ledger Balances as on 31st December, 1927 of Mr. Fakir Chand.

	Rs.
Capital	39,104
Loan	20,000
Plant and Machinery	21,460
Freehold Property	21,235
Rent received from sublets	405
Sales	65,246
Furniture and Fittings	1,540
Sundry Debtors	20,500
Bad Debts	185
Trade Expenses	308
Cash	397
Bank Overdraft	8,575
Law Charges	350
Rent, Rates and Insurance	742
Salaries	1,440
Manufacturing Wages	15,331
Repairs	217
Reserve for Bad and Doubtful Debts	750
Sundry Creditors	2,309
Stock on 1st January, 1927	11,811
Bank Interest and Commission	494
Manager's house rent	450
Carriage	931
Purchases	38,699
Agents' Commission	299

(1) Provide for depreciation on Plant and Machinery at 10 per cent and on Furniture and Fittings at 5 per cent.

(2) Bring up the Reserve for Bad and Doubtful Debts to 5 per cent of the amount owing by Sundry Debtors.

(8) Carry forward Rs. 50 as unexpired insurance.

Stock on hand on 31st December, 1927 was valued at Rs. 17,000. You are required to prepare the Trading Account Profit and Loss Account and Balance Sheet, as on 31st December 1927.

(14) On 30th June, 1917, the books of Brown showed the undermentioned balances. Prepare the Trading Account, Profit and Loss Account, and Balance Sheet of the firm as at that date:—

	£	s.	d.
Capital	12,172	9	6
Drawings	1,000	0	0
Freehold Land and Buildings	5,000	0	0
Plant and Machinery	2,500	0	0
Furniture	500	0	0
Stock of Goods	4,150	0	0
Purchases	12,736	14	3
Sales	21,283	14	7
Discounts	171	3	7
Returns Outwards	164	3	9
Carriage on Purchases	472	15	2
Wages and Salaries	1,227	10	0
Sundry Debtors	5,445	14	3
Sundry Creditors	2,454	3	7
Bad Debts	250	0	0
Reserve for Bad Debts	750	0	0
Rates and Taxes	187	15	0
General Expenses	1,338	2	3
Cash at Bank	1,844	16	11

Stock of Goods on 30th June, 1917 was valued at £4,500. Interest at the rate of 5 per cent per annum is to be allowed on the capital. Depreciate Plant and Machinery by 10 p. c. and make an additional reserve of 5 p. c. on the Sundry Debtors for Bad and Doubtful debts. The Rates and Taxes paid were for the period from 1st April to 30th September, 1917.

(15) Trial Balance as on 31-12-1926.

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Capital				5,000	0	0
Drawing Account	684	1	7			
Land and Buildings	2,500	0	0			
Plant and Machinery	1,426	17	7			
Furniture and Fixtures	125	8	4			
Carriage	437	1	4			
Wages (Manufacturing)	2,147	6	1			
Salaries	467	10	0			
B. D. Reserve (as on 1st January 1926)				247	6	2
Sales				9,122	16	9
Sales Returns	176	2	7			
Bank Charges and Interest	14	4	6			
Coal, Gas and Water	72	1	7			
Rates and Taxes	84	7	6			
Discount Account				12	7	6
Purchases	4,216	17	2			
Purchases Returns				846	2	2
Cash on hand	127	10	0			
Trade Expenses	49	7	9			

Sundry Drs.	781	15	9				
Sundry Crs.				2,217	15	1	
Stock	2,642	14	8				
General Expenses	149	1	5				
Fire Insurance	49	15	0				
Commissions				59	0	0	
Bank	1,344	4	10				
Total	17,496	7	8	17,496	7	8	

Before preparing Trading P. & L. a/c and B/S charge Depreciation on Land Building Account at $2\frac{1}{2}$ per cent, on Plant and Machinery at 10 per cent and on Furniture and Fixtures at 10 per cent. Make a reserve of 5 per cent on the Sundry Debtors for Bad Debts. Carry forward the following unexpired amounts :—

(1) Fire Insurance	£ 12	7	2
(2) Rates and Taxes	24	2	6
(3) Apprentice Premiums	40	0	0

Allow 5 per cent interest on Capital but not on Drawings. Stock on hand £ 1732 9 11. Prepare trading and P. & L. a/cs. & B/S.

(16) From the following T/B of Mr. Robert Jones extracted on 30th June 1932 for the year prepare Trading, and Profit and Loss Accounts and Balance Sheet.

Capital	£ 6,000	Drawings	£ 1,000
Sales	12,000	Purchases	4,000

Loan	1,000	Machinery & Plant	1,500
Land & Buildings	2,000	Creditors	500
Wages	3,000	Debtors	1,500
Rates and Taxes	40	Bills Receivable	800
Insurance	10	Carriage	150
Sundry Expenses	200	Stock (Opening)	4,000
Cash	50	Bank	1,250

Charge depreciation on Land and Buildings $2\frac{1}{2}\%$, on Machinery and Plant 5%. Allow 5% interest on Loan as well as on Capital. No interest is to be charged on drawings Provide 5% for bad and doubtful debts and £25 for discount. Stock on 30th June, 1932 £800.

(17) Prepare final accounts of John Combine, Steel Merchant on Dec. 31, 1921. Stock on that date valued at £ 3,500 write off £400 Bad debts, and maintain a reserve of 5% on the remaining debtors balances to allow for bad and doubtful debts. Depreciate plant 10%. Allow interest on Capital at 6% per annum, J. Combine had put in £1,000 on 1st Dec., 1921.

Trial Balance on 31st December, 1921.

Stock	9,600	Capital	5,000
Wages	3,200	Bills Payable	500
Railway freight	500	Bank	400
Purchases	12,000	Sales	25,000

Interest	20	Res. for Bad debts	500
Bills Receivable	600	Discount	400
Rent Rates etc.	250	Creditors	2,830
Plant & Machinery	2,000		
Travelling Expenses	500		
Repairs	160		
Cash	200		
Discount	500		
Returns	100		
Debtors	3,500		
Office expenses	500		
Drawings	500		
	<hr/>		<hr/>
	£ 34,130		£ 34,130
	<hr/>		<hr/>

CHAPTER VII.

Errors and their rectification.

It happens that the two sides of a Trial Balance do not agree and it is not always practicable to go over all the postings and totals for some reason or the other. In Such a case the following procedure is likely to lead to the detection of errors.

1. First of all the difference between the two sides should be ascertained. If the difference consists of Rupees, Annas and Pies say Rs. 272-8-6. (or in £-s-d if the accounts are in the English currency) it is just possible that an item of that much amount has been forgotten at the time of posting.

2. Sometimes the reason of a mistake is that an item of debit side has been posted on the credit, or vice versa; in such a case the mistake is likely to be traced if the difference is divided by 2 and an item of that amount searched out.

3. If the difference is of 100,10,1 or the like, it is very likely that one of the totals is wrong.

4. If the difference is 9,99,999 this is most probably due to posting 1 in place of 10 or 10 in place of 100 and so on.

5. If the difference is of 0-0-11, or 0-15-0 it is just possible that it is due to writing one pie for one anna, or one anna for one rupee. Similar mistakes arise from

the reversal of figures in many other cases say Rs. 2 in place of annas 2, 0-6-9 in place of 6-9-0 and so on.

6. If of course there is an error due to a combination of many mistakes it is difficult to trace the same easily.

Failing every other way the only way left is to go over the ground once more and to check postings and the totals.

Suspense account—If unfortunately the mistake could not be found and there is no time left to wait for the detection, both sides of the trial balance are made to agree by writing the difference to the Suspense Account on the side having less total and thus making up the deficit. When mistakes are traced they are written back to the suspense account already created and so it is automatically closed when all the mistakes are traced.

When there is some uncertainty about any account, suspense account is *also* made use of. Suppose money is received and it is not known who has sent it till the time the party is not traced the amount will remain credited to Suspense Account. Again suppose goods are lost or are not traced for the time being, the amount is placed to a suspense account. As explained before it is also made use of when an expenditure incurred is to be apportioned over a number of years.
e. g. Advertising Suspense Account.

Rectification.

If the errors are traced before the final accounts are prepared they can be corrected under initials of some responsible person, but if they are traced later on rectifying entries will have to be passed.

The easy process of writing such an entry is that the correct entry should be written on a piece of paper and also the entry wrongly passed and then effort should be made by writing a third entry to neutralise the effect of the wrong entry and to take up the item necessary to conform the wrong entry to the right one. *e.g.* Cash sale Rs. 200 credited to Furniture account wrongly will be treated as follows:—

The correct entry:—

Cash	Dr.	Rs. 200	
To Goods a/c.			Rs. 200

The entry wrongly passed:—

Cash	Dr.	Rs. 200	
To Furniture a/c.			Rs. 200

The goods account ought to have got credit while it is given to the Furniture account, so in this case our attempt should be to eliminate the Furniture account and to give credit to the Goods account which will be done by the following entry:—

Furniture a/c	Dr.	Rs. 200	
To Goods a/c			Rs. 200

The result of this entry will be that the Furniture account will be squared and the Goods account will get credit for Rs. 200.

Example—A book-keeper finds that his Trial Balance debit side is short by Rs. 308-2-9 and so he for the time being balances the sides by putting the difference to Suspense account. Later on he finds that:—

- (a) Goods of Rs. 302-9-0 sold to Rama & Co. were posted to their account as 32-9-0

- (b) Furniture of Rs. 725 purchased was posted to Goods account.
- (c) The debit side addition of Rama's account was undercast by Rs. 28-2-9.
- (d) Rs. 10 spent on purchase of postage stamps was not posted.

Show how the adjusting entries will be made and what will be their effect on the profit figure.

Journal

[a] Rama & Co. To Suspense a/c The difference (Rs. 302-9-0 less Rs. 32-9-0) in posting adjusted.	Dr.	270 0 0	270 0 0
[b] Furniture a/c To Goods a/c Purchase of furniture wrongly posted to Goods account now adjusted.	Dr.	725 0 0	725 0 0
[c] Rama To Suspense a/c The undercasting of Rama's account adjusted.	Dr.	28 2 9	28 2 9
[d] Postage a/c To Suspense a/c Rs.10 postage not posted to that account now adjusted.	Dr.	10 0 0	10 0 0

Suspense Account.

To difference in books	308 2 9	By Rama & Co.	270 0 0
		„ Rama	28 2 9
		„ Postage a/c	10 0 0
	<u>308 2 9</u>		<u>308 2 9</u>

The effect of these entries on the Profit and Loss account will be:—

Entry (a)——no effect.

„ (b)——profit increased by Rs. 725-0-0.

„ (c)——no effect.

„ (d)——profit reduced by Rs. 10-0-0.

The profit will be increased by Rs. 715 as will be seen from the P. & L. a/c given below.

P. & L. Account.

To suspense a/c 10 0 0 | By Furniture a/c 725 0 0

Errors in Calculations.

Sometimes errors are occasioned by the ignorance of the proper methods of calculations and where lengthy processes are adopted they give an occasion for many errors which can be avoided easily.

Very often for the sake of calculating interest, discount, or for any other purpose, it is found necessary to find $1\frac{1}{2}$ per cent, $2\frac{1}{2}$ per cent, $3\frac{1}{2}$ per cent, 5 per cent, or some such percentage then the process of multiplying the amount by the per cent and dividing the result by 100 involves much calculation. The following methods will be found very useful.

To find 5% divide the amount by 20 orally.

5% of Rs. 7243-8-9 is Rs. 362-2-10.

To find $1\frac{1}{2}$ % divide the amount by 20 and the result by 4.

To find $3\frac{1}{2}$ % find 5% and deduct $1\frac{1}{2}$ per cent from the same.

Generally one or the other combinations can be easily found to suit the required calculation.

Exercise VII.

(1) How will you rectify the following mistakes. Give journal entries where necessary:—

- | | |
|--|---------|
| (a) Cost of goods charged to freight account. | 50 0 0 |
| (b) Goods sold to A written to B's account | 100 0 0 |
| (c) Bad debts written off in previous years realised credited to debtors | 70 0 0 |
| (d) Repairs made debited to Building account | 140 0 0 |

Give the result of these corrections on the Profit and Loss account.

(2) Show the effect of the following mistakes on the Profit and Loss account.

- (a) Rs. 250 paid for office furniture debited to Trade expenses.
 - (b) Invoice for Rs. 23,000 for goods purchased has not been passed through books, although the goods are included in the stock.
 - (c) Machinery sold for Rs. 2,500 posted as cash sales.
 - (d) Cash received in respect of Book Debts Rs. 200 posted as cash sales.
- Pass the necessary adjusting entries.

(3) On 31st December, 1917 a merchant's Profit and Loss Account showed a credit balance of Rs. 3,200 before making the following adjustments which you are now required to make and prepare therefrom an amended Profit and Loss Account:—

- (a) Unexpired Insurance Rs. 75.
- (b) Unpaid salaries Rs. 200.
- (c) Rent at Rs. 600 per annum is paid only upto 31st October, 1917.
- (d) Wages Rs. 825 paid for erection of new machinery, but debited to wages account to be now transferred to Machinery account.

(4) Explain the effect of the following mistakes on the Profit and Loss account:—

- (a) Rs. 250 paid for office furniture charged to repairs account.

(b) Rs. 150 rent received credited to Mr. Ram.

(c) Rs. 450 realised from debtors debited to personal account.

(5) A book-keeper finds in his Trial Balance an excess credit Rs. 69-4-3. He balances the books by carrying this amount to Suspense Account. You discover that:—

(i) Rs. 34-6-0 paid to A have been credited to his account as Rs. 43-6-0.

(ii) a purchase of Furniture for Rs. 145-8-0 posted to the Purchases Account.

(iii) an expenditure of Rs. 158 on repairs has been debited to Buildings Account.

(iv) Rs. 80 were allowed by B. as discount, this has not been entered in the books.

(v) a sum of Rs. 125-0-9 realised on the sale of old furniture has been posted to Sales.

Give the necessary entries.

(6) In taking out Trial Balance, a book-keeper finds that he is "out" Rs. 59-10-8 excess debit. Being desirous of closing his books he carries the amount to Suspense Account. Later on he discovers:—

(a) that a purchase of Rs. 83-9-0. has been debited to a creditor as Rs. 38-11-9.

(b) that sum of Rs. 62-10 written off for depreciation has not been posted to depreciation account.

(c) that Rs 1000 paid for Furniture purchased had been charged to the ordinary purchase account;

- (d) that a discount of Rs. 15-4-6 allowed to a customer has been credited to him as Rs. 14-5-6; and
- (e) that total of the Inward returns has been added Re. 1 short.

Give the adjusting entries for these mistakes, and prepare the Suspense Account. State also the ultimate effect of these correcting entries on the Profit and Loss Account.

(7) In taking out a Trial Balance, a book-keeper found that the credit side is in excess by Rs. 172-8-8 for which he opened Suspense Account and it is carried forward. In the next period he discovers that:—

- (a) a credit item of Rs. 83-9-11 has been debited to a personal account as Rs. 33-11-9
- (b) a sum of Rs. 162-12-0 written off from Fixture as depreciation has not been posted to depreciation account but is charged to the ordinary Purchases account;
- (c) a discount of Rs. 25-4-6 allowed to us has been credited as Rs. 52-6-4.
- (d) the total of the Returns outwards has been added Rs. 10 short.
- (e) an item of sale for Rs. 68 was posted as 86 in the Sales Account.

Give the correcting entries, and prepare the Suspense Account. State also the ultimate effect of these correcting entries on the Profit and Loss Account. Give the balance of the Suspense account if any.

CHAPTER VIII.

Consignments and Joint Ventures.

In these days of large scale production manufacturers and traders are constantly on the look-out to find markets for their goods. By means of easy means of communication and effective advertisement, it has become easier to find persons who will undertake to sell goods on commission. The shipments of goods sent to such persons for sale on behalf of the sender are technically known as **consignments**. The trader who sends such goods is known as the **consignor** and the person to whom the goods are sent the **consignee**.

After the preliminary agreement regarding commission etc. is made, goods are sent to the consignee. The usual function of the consignee is to sell the goods and to charge commission for the same. Sometimes he is allowed some extra commission called **del credere** Commission for holding himself responsible for the credit sales; and so in case any party becomes insolvent or for some reason or the other fails to pay the dues the consignee has to make good the loss in return for this extra commission.

The consignor sends to his consignee **Pro Forma** Invoice which is a special form of invoice. It shows the quantity and description of goods but the price stated is merely to indicate the minimum below which

the goods are not to be sold. After the goods are sold the consignee submits the account of the sale effected by him technically known as the **Account Sale (A/S)** and it shows the sale proceeds, the expenses incurred and also the commission of the consignee.

Account Sale of 100 cases of cotton goods received from Messrs Arthur Bros., London per S. S. Calcutia.

Marks.	Proceeds of 40 Cases @ £ 25-10	1020	0	0			
	Proceeds of 60 cases @ £ 25/-	1500	0	0	2520	0	0
	Less.						
	Landing Charges	15	0	0			
	Cartage	10	0	0			
	Storage	5	0	0			
A. B.	Commission @ 2½ per cent on £2520	63	0	0	93	0	0
					2427	0	0
701-800	Draft for £2427/- sent herewith						

E. & O. E.

CARPER BROS. Ltd.

Sydney, 15th January, 1928.

After this statement is received the consignment transaction is closed and profit and loss on the transaction is ascertained.

Consignments differ from sales. In the case of the latter ownership passes immediately, but in the case of the former it remains with the consignor and will pass only when sale is effected. In the case of sale the relation between the parties is that of a debtor and creditor, but that between a consignor and a consignee is that of a principal and an agent. Goods once sold are seldom returned, but goods consigned are returned if not sold.

The subject of consignment can be divided into two parts (1) **consignment outwards** meaning goods sent out for sale, and (2) **consignment inwards** meaning goods received for sale. The consignment is called consignment outwards in the books of the consignor but the same is called consignment Inwards in the books of the consignee.

Usually separate sets of books are maintained by those who have always to send a large number of consignments but those who now and then consign goods do not maintain a separate set of books but pass entries of such transactions through the ordinary books.

Each consignment is distinguished from the other by some distinctive name or number. Sometimes it is styled after the name of the consignee or the place of the same or it is given a number e.g. consignment No. 26, Consignment to London or Consignment to Robertson.

Entries relating to consignment outwards.

In the books of the consignor the following entries will be passed:—

(1) When goods are consigned debit *Consignment Account* and credit *Goods on Consignment Account*. The goods are of course usually valued at cost price.

(2) When expenses for freight and other charges are incurred debit *consignment account* and credit cash or personal account according as the expenses are cash or credit.

(3) On receipt of money or a bill from the consignee, he should be credited for the account while the Bill or Cash or Bank account should be debited. If the bill is discounted the discount should be charged to consignment account, though of course there are some accountants who treat it as an ordinary business loss and charge it to Profit and Loss account direct.

(4) When the 'Account sale' is received, consignment account should be debited for all expenses and the commission charged and the consignee credited for the total amount.

(5) For the amount of sale proceeds the consignee should be debited and consignment account credited.

(6) The consignment account should be closed by transferring the balance to the P. & L. account. In case there is a profit the consignment account will be debited and the P. & L. account will be credited. The reverse will be the entry if there is a loss.

(7) The consignee's account will now show the amount he owes and his account will be credited with the amount of cash or cheque he sends and his account will be closed when full dues will be realised from him. In case his account shows a credit balance which is rarely the case, it will be closed when he will be given the balance due to him.

(8) The Goods sent on Consignment account will now remain in the books and will be closed by debiting it and crediting the Trading Account.

In the above entries it has been assumed that all the goods consigned have been sold but there are two other possibilities (a) goods have not at all been sold at the time of closing or (b) they have been partly sold.

As has been already explained there will be no difficulty if the consignment is not at all sold. Then the consignment account will be shown as an asset in the balance sheet, but if the goods are partly sold a little adjustment will be necessary. The balance of stock will have to be ascertained and priced as usual. In addition the proportionate charges of the consignment will have to be added to it. The cost price of the stock and the proportionate share of expenses put together will show the real price of the balance of the consignment and with this amount the closing stock will be debited and the consignment account credited. If the expenses incurred for all the goods are not proportionately divided, the goods sold will have to bear all the expenses, which will not be reasonable and again the amount of profit will be reduced unnecessarily.

If the consignment account is shown as an asset in the Balance Sheet the consignee's account for advances made by him is generally shown as a deduction from the consignment account thus:—

Balance Sheet.

Liabilities

Assets

Consignment	1287
Less advance from Roberts	500
	—787

This very thing can as well be shown as:—

Balance Sheet.

Roberts	500 0 0		Consignment	1287 0 0
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Example:—On 15th Jan., 1927, Mr. Low consigned 100 bales of cotton goods from Lancashire to Mr. H. Ford, Cape Town @ £. 135-10-0 a bale, and paid freight £ 27-10-0 shipping charges £ 2-7-0 Insurance £ 22-12-6. On 27th Feb., he drew a bill for £ 10,000 and got it discounted by paying £ 15-13-6. On 28th April, an account sale showing a sale of 60 bales @ £ 150. a bale, and of 40 at £ 145-10-0 a bale was received. The consignee paid landing charges £ 17-1-0 and charged 5 per cent commission on sales. Mr. Low drew upon Mr. Ford a bill for the balance. Give the necessary entries in the books of the consignor.

CONSIGNOR'S BOOKS.

Journal.

		£	s.	d.	£	s.	d.
1917. Jan. 15	Consignments a/c Dr. To goods sent on consignment a/c (For the cost of 100 bales @ £ 135-10-0 sent on consign- ment to Cape Town.)	13,550	0	0			
					13,550	0	0
"	Consignment a/c Dr. To Cash (For payment in cash of freight £27-10-0 shipping charges £ 2-7-0 and insu- rance charges £ 22-12-6).	52	9	6			
					52	9	6
Feb. 27	B/R account Dr. To Ford (For the amount of the bill drawn upon Mr. Ford.)	10,000	0	0			
					10,000	0	0
"	Consignment a/c Dr. To Discount (Being the amount of discount on the bill charged to consign- ment a/c).	15	13	6			
					15	13	6

Apl. 28	Ford To Consignment a/c	Dr. 14,820 0 0	14,820 0 0
	(For the sale proceeds 40 bales @ £145-10-0 60 bales @ £150-0-0)		
"	Consignment a/c Dr. To Ford	758 1 0	758 1 0
	(For his exps. £17-1-0 and commission @5% on £14820 £741-0)		
28	Consignment a/c Dr. To P. & L. a/c.	443 16 0	443 16 0
	(For profit transferred)		
"	Goods sent on con- signment a/c Dr. To Trading a/c	13,550 0 0	13,550 0 0
	(For goods sent on consignment a/c transferred to the trading a/c.)		
1	B. R. account Dr. To Ford	4,061 19 0	4,061 19 0
	(For the bill drawn for the balance due from Mr. Ford.)		

LEDGER**Consignment to Cape Town Account**

1927 Jan. 15	To Goods on consignment.	18,550 0 0	1927 Apr. 28	By Ford.	14,820 0 0
"	To Cash	52 9 6			
Feb. 27	" Discount.	15 13 6			
Apr. 28	" Ford (exp.)	758 1 0			
"	" P. & L. a/c	443 16 0			
		14,820 0 0			14,820 0 0

Goods sent on Consignment Account

Apr. 28	To Trading Account	13,550 0 0	Jan. 15	By Consignment a/c	13,550 0 0
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Ford (Consignee)

Apl. 28 To Consignment	14,820-0-0	Feb. 27 By B. R.	10,000-0-0
		Apl. 28 " Consignment	758- 1-0
		" " B. R.	4,061-19-0
	14,820-0-0		14,820-0-0

If however the Balance Sheet were to be prepared before any sale could take place say on the 31st March, 1927 the consignment account will be shown as a debit balance of £13,618-3-0 (*i. e.* £13550 + 52-9-6 + £15-13-6) and the Balance Sheet would have been as under:—

Balance Sheet as on 31st March, 1927.

Liabilities.

Assets.

Consignment a/c	£ 13,618-3-0
Less Advance from Ford.	10,000-0-0
	<hr/>
	3,618-3-0

Suppose that on 31st March, 1927 an advice is received that only 60 bales have been sold at £ 150-0 a bale and we are asked to close the books the expenses will have to be apportioned as under:—

Freight	£ 27 10 0
Shipping	2 7 0
Insurance	22 12 6
Landing Charges	17 1 0
	<hr/>
	69 10 6

This amount is to be apportioned as 60:40 *i. e.* 3:2, therefore £ 41-14-4 will be charged to the present sale and £27-16-2 charged to the stock.

Consignment a/c

1927			Mar.31 By Ford sale	
Jan.15	To goods sent on consignment	13550- 0-0	of 60 bales at £ 150each	9,000- 0-0
	To Cash	52- 9-6	" " Stock	
Feb.27	" Discount	15-13-6	40 bales @	£ 135-10-0
Mar.31	" Charges	17- 1-0	plus expenses	27-16-2 5,447-16-2
"	" Commission	450- 0-0		
"	" P.&L. a/c	362-12-2		
		<u>£ 14,447-16-2</u>		<u>£ 14,447-16-2</u>
Apl.1	To bal.	5,447-16-2		

Ford (Consignee)

Mar.31	To Consignment a/c	9,000-0-0	Mar.31 By B. R.	10,000-0-0
"	balance	1467-1-0	" " exps.	17-1-0
		<u>£ 10,467-1-0</u>	" Commission	450-0-0
				<u>£10,467-1-0</u>
			Apl.1 By balance	1467-1-0

Sometimes when the consignment has not been fully sold the stock is shown after including the proportionate charges. If these charges are not included generally it is given as stock at cost price.

Some traders do not debit consignment account and credit 'Goods sent on consignment account' at the cost price but with the addition of a little percentage of profit. If the whole consignment is sold, there will be no disturbance; but if there is stock on hand at the time of closing and the goods sent on con-

signment account is transferred to the Trading account it will be credited not only with the cost of the stock on hand but also with the profit percentage. It is for this reason that in such a case the following adjusting entry is necessary for the amount of the profit percentage on the stock on hand.

Goods sent on Consignment account Dr.
 To Consignment Reserve account.

This will have the effect of reducing the credit of the Trading account and so the profit on the unsold stock will not be taken. When the whole stock is sold the consignment Reserve account will be transferred to P. & L. account.

Example—Consigned goods of Rs. 10000 (cost price) charging them 10% higher. One fourth portion of the consignment is still unsold. Show the necessary adjustments.

The price of the balance unsold is cost price Rs. 2500 added to it the percentage of expenses Rs. 250 i. e. Rs. 2750.

Goods sent on consignment a/c

To Consignment Reserve a/c	250	By consignment a/c	11,000
„ Trading a/c	10,750		
	<u>11000-0-0</u>		<u>11,000</u>

Consignment Reserve Account.

By Goods sent on Consignment a/c 250-0-0

The above account will be transferred to P. & L. account when the whole stock will be sold and till then this balance will appear in the Balance Sheet.

Consignment Inwards.

It has already been explained that to the consignor the consignment is Consignment Outwards but to the consignee the same is Consignment Inwards. In this case he receives goods for effecting sale and charges his commission. He will only hold the goods in trust for his principal till they are sold or returned back and will sell them at the price indicated by the *Pro Forma Invoice*.

The following entries will be passed, in the books of the consignee.

1. On receipt of the goods, no entry will be passed, but in a statistical book record will be made of goods received as per *Pro Forma Invoice*.

2. If any expenses are incurred, debit the consignor and credit cash or personal account according as the transaction is cash or credit.

3. When a bill, cheque or cash is sent to the consignor or a bill is accepted for him, debit consignor and credit B. P. bank or cash account as the case may be.

4. When the sale is effected debit cash, or party and credit the consignor according as the sale is cash or credit.

5. For commission debit consignor and, credit commission account.

6. When account is closed by paying the balance or by a bill for the same debit consignor and credit bill or cash as is the case. If the consignment is fully sold or partly sold or absolutely unsold, the position of the consignee is not affected.

Taking the same example the entries will be:—

Consignee's Books.

Journal.

		£	£
To (Consignor)	Dr.	17 1 0	
To cash			17 1 0
(For landing charges)			
Low	Dr.	10,000 0 0	
To B. P.			10,000 0 0
(For draft accepted as advance against the con- signment)			
Cash	Dr.	14,820 0 0	
To Low			14,820 0 0
(For the sale proceeds of 100 bales)			

Low	Dr.	741 0 0	
To Commission (For commission at 5% on £14820-0-0)			741 0 0
Low	Dr.	4,061 19 0	
To B. P. (For accepting the bill of Low for the balance).			4,061 19 0

Low (Consignor)

To cash	17 1 0	By Cash	14,820 0 0
„ B. P.	10,000 0 0		
„ Commission	741 0 0		
„ B. P.	4,061 19 0		
	<u>14,820 0 0</u>		<u>14,820 0 0</u>

There is also one more method that is followed by some accountants and is called the *practical* method as opposed to the theoretical one explained above.

Second Method.

1. Open a consignment Inwards account, and

debit the same with the *Pro Forma* invoice price of the goods received, and credit the consignor.

2. For expenses debit Consignment Inwards account, and credit cash or person according as the expenses are paid for or are to be paid.

3. When advance is sent debit consignor, and credit bill or cash.

4. For sale debit person or cash according as the sale is cash or credit and credit Consignment Inwards account.

5. For commission debit Consignment Inwards account, and credit commission account.

6. Transfer the balance of the Consignment Inwards account to the consignor's account.

7. Debit consignor, and credit cash or bill sent to him to settle the account.

If however there is a balance of stock unsold the Consignment Inwards account should be credited with the price of the stock on hand, and the balance carried down. The same amount will be shown as a credit balance in the consignor's account.

The main cause of difference between the two methods is that in the first method no entry is made for goods received for sale, but in the second this is recorded by giving credit to the consignor. The objection to the second method is that no relation of the nature of a debtor or creditor is created by

simply accepting a consignment for sale but by crediting the consignor in our books for the goods consigned, we assume undue responsibility. But it is contended that mere statistical record is not satisfactory. Again the consignee is also interested in the result of the consignment, and whether there is a profit or not can be better ascertained by following the second method. However the first method is more simple though it may not be so perfect as the second.

Taking the same example the entries by the second method will be :—

Consignee's books.

Consignment Inwards a/c.			
Dr.	13,550	0	0
To Low (Consignor)			13,550 0 0
(For goods received on consignment.)			
Consignment Inwards a/c.			
Dr.	17	1	0
To cash			17 1 0
(For landing charges)			
Low			
Dr.	10,000	0	0
To B. P.			10,000 0 0
(For bill accepted by way of advance.)			

Cash		14,820 0 0	
To consignment Inwards a/c.			14,820 0 0
(For sale of the goods).			
<hr/>			
Consignment Inwards a/c.			
Dr.	741 0 0		
To commission			741 0 0
(For 5% commission on the sale proceeds £14,820).			
<hr/>			
Consignment Inwards a/c. Dr.	511 19 0		
To Low			511 19 0
(For profit on the sale of the consignment transferred).			
<hr/>			
Low	Dr.	4,061 19 0	
To B. P.			4,061 19 0
(For the amount of the balance in favour of the consignor adjusted by accepting his bill.)			

Consignment Inwards Account.

To Low	13,550 0 0	By Cash	14,820 0 0
" Cash	17 1 0		
" Commission	741 0 0		
" Low	511 19 0		
	<hr/>		<hr/>
	14,820 0 0		14,820 0 0

Low (Consignor)

To B. P.	10,000 0 0	By Consign- ment In- wards $\frac{1}{2}\%$	13,550 0 0
" B. P.	4,061 19 0	" "	511 19 0
	<u>14,061 19 0</u>		<u>14,061 19 0</u>

Assuming that in the above example only 90 bales have been sold for £13,500 and the balance of Mr. Low's account £2807-19-0 has been adjusted by means of a B.P., the accounts will appear as under:—

Consignment Inwards a/c.

To Low	13,550 0 0	By Cash	13,500 0 0
" Cash	17 1 0	" Stock 10 bales at £135-10	1,355 0 0
" Commission 5% on 13500	675 0 0		
" Balance transferred to Low	612 19 0		
	<u>14,855 0 0</u>		<u>14,855 0 0</u>
To. bal. b/d	1,355 0 0		

Low (Consignor).

To B. P.	10,000 0 0	By Consignment Inwards	13,550 0 0
" "	2,807 19 0		
" Stock	1,355 0 0	" Transfer from consignment account	612 19 0
	<hr/>		<hr/>
	14,162 19 0		14,162 19 0
		By Bal. b/d	1,355 0 0

The amount of the second bill is arrived at as under:—

Sale proceeds		£13,500 0 0
Less expenses.	17 1 0	
" Commission	675 0 0	
" B. P.	10,000 0 0	10,692 1 0
	<hr/>	<hr/>
		£ 2,807 19 0

Joint Venture.

To quote Bell's Principles, 'Joint Adventure or Joint Trade is a partnership confined to a particular adventure, speculation, course of trade or voyage and in which the partners, either latent or known, use no firm or social name, and incur no responsibility beyond the limits of the adventure.' In short it is a joint trading by two or more firms or persons who provide

for the cost of the goods and expenses and later on share the profit or loss of the transaction. It is also called **Joint Account, Joint Consignment** or **Joint Venture**. It differs from the Consignment as in this all the parties are partners, while in the latter one is a principal and the other is his agent. Moreover all the partners share profits and losses, while the agent has nothing to do with the profit or loss his remuneration being his commission.

This temporary partnership is formed generally with a view to reap additional advantage by the combination. Some one may have good financial resources, another may have the advantage of buying on very favourable terms; another may have good opportunities of selling the goods at very lucrative prices.

Each party opens in his books a joint venture account and debits and credits the same for the necessary operations. There is also a personal account of his temporary partner who is debited for all benefits given to him and credited for all benefits given by him. When the venture terminates the joint adventure account is closed by transferring the profit or loss to the parties in the proportion agreed upon.

So in the books of each of the parties there will be a Joint Venture account and one or more personal accounts as the case may be. The joint venture account in each case will be the same. The personal account will be closed by taking or giving whatever is due.

Sometimes one of the parties is entrusted with the sole management and he is given some extra remuneration for the additional work, and it is charged to the joint venture account. In many cases interest for sums advanced by the parties is also charged to this account and credited to the parties.

If at the time of closing, the venture is not complete the joint venture account, and the parties' accounts will be shown in the Balance Sheet.

The following entries should be passed for recording the joint adventure transactions :—

(1) Debit Joint Venture account for all expenses incurred for the same including the cost of goods, and credit cash or personal accounts according as the transaction is cash or credit.

(2) When the sale is effected debit cash or person, and credit joint venture account according as the transaction is cash or credit.

(3) If the other party incurs any expenses, or purchases goods, debit joint venture account and credit the party. For sale effected by him debit his account (or debtors if a credit sale) and credit the joint venture account.

(4) If any remittance is made debit the other party, and credit cash or bill. If on the contrary cash or bill is received debit the same and credit the other party.

(5) When all the expenditure and sale is taken into account balance the joint venture account and transfer the profit or loss to the parties concerned in the ratio agreed upon.

(6) If there is a balance on the personal account it will show the amount due to or by him.

(7) In some cases interest is allowed to the parties concerned and it is to be adjusted by debiting joint venture account, and crediting the various parties.

(8) If there is a balance of stock on hand at the time of closing, the joint venture account will be credited with the value of the stock, and will be shown in the Balance Sheet.

Example—A and B enter into a joint venture and agree to share profits and losses in the ratio of 3: 1. On the 15th February, 1928 A purchases goods of Rs. 7823-0-0 and sends them to B paying freight Rs. 312-8-0, insurance Rs. 16-11-0, and other charges Rs. 123-11-9 and draws a bill for Rs. 9,000 on B. B sells these goods for Rs. 10,681-8-9 and is allowed a commission of Rs. 96-3-0. He spends Rs. 217-7-0 for godown and other expenses. A draws a bill on B for the balance. Prepare the ledger accounts in the ledgers of A and B.

A'S LEDGER.**Joint Venture Account with B.**

To Cost of		By B for sale	
goods	7,823 0 0	proceeds	10,681 8 9
„ Freight	312 8 0		
„ Insurance	16 11 0		
„ Other exps.	123 11 9		
„ B for (Com- mission)	96 3 0		
„ B for (Exps.)	217 7 0		
„ P. & L. a/c			
$\frac{3}{4}$ th. share	1,569 0 0		
„ B. $\frac{1}{4}$ share of profit	523 0 0		
	<u>10,681 8 9</u>		<u>10,681 8 9</u>

B's Account.

To sale of		By Commission	
goods	10,681 8 9		96 3 0
		„ Expenses.	217 7 0
		„ B. R.	9,000 0 0
		„ Joint ven- ture $\frac{1}{4}$ th	523 0 0
		Share of profit	844 14 9
		By Bill	
	<u>10,681 8 9</u>		<u>10,681 8 9</u>

B's LEDGER.**Joint Venture Account with A.**

To A's account for cost grand	7,823 0 0	By cash (Sale proceed).	10,681 8 9
" A's account for freight.	312 8 0		
" A's a/c Insurance.	16 11 0		
" A's other exps.	123 11 9		
" Commission.	96 3 0		
" Expenses.	217 7 0		
" P. & L. a/c $\frac{1}{4}$ th share of profit.	523 0 0		
" A's a/c $\frac{1}{4}$ th share of profit.	1569 0 0		
	10,681 8 9		10,681 8 9

A's Account.

To B. P.	9,000 0 0	By Joint Venture account for cost of goods	7,823 0 0
" "	844 14 9	" " freight	312 8 0
		" " Ins.	16 11 0
		" " other exps.	123 11 9
		" " $\frac{1}{4}$ th share of profit.	1,569 0 0
	9,844 14 9		9,844 14 9

Exercise VIII.

(1) Prepare a consignment Account from the following particulars, showing the Profit or Loss on the transaction :—

March	2. Consigned goods to J. Jones & Co.	1,500	0	0
"	2. Paid Carriage, and Insurance on the same.	50	0	0
"	19. Received Account sales from J. Jones & Co. showing that they had sold half the goods for	1,000	0	0
"	21. Received further Account Sale from J. Jones & Co. for the balance of goods.	750	0	0
	His charges were as follows:—			
	Sundry Expenses	75	0	0
	Commission	87	0	0
"	23. Received a cheque from J. Jones & Co. for amount due from them			

(2) Messrs. Jones & Co., of Leeds holding goods which cost them £1,800 consigned them to Messrs. Mirsinghi & Co., Calcutta, on March 17th 1911, and rendered a proforma invoice for £2,000. They paid for freight £60, and for insurance £10, and drew on Messrs. Mirsinghi & Co. at three months sight for £1,000 against the shipment selling the bill to the Bank of Bengal, Calcutta. A commission of $2\frac{1}{2}$ per cent. and an additional $1\frac{1}{2}$ per cent Del Credre commission

are payable on Sales. Messrs. Mirsinghi accepted the Bill on May 1st, and obtained the goods half of which they sold for £1,100, gross on May 15th, and the remainder on November 1st for £1,500 gross. In the first case, the charges for landing, and storage amounted to £20, and in the latter to £35. In each case, they deducted commission, and remitted drafts at three montes sight for the balance. Write up the account as they would appear in the books of the consignors, and prepare A/S.

(3) Messrs Madan & Co. of London consigned goods to Messrs. Cox & Co., Sydney to the cost of £12,700, and paid freight £27-10-0, insurance and other charges £17-16-9, and drew on them, for £10,000. The bill was duly discounted, and the discount paid was £20. Messrs. Cox & Co. sent their Account Sales showing the sale proceeds as £14,929-17-6 and charges of landing and other things at £129-9-9. They charged commission 5% on Sale proceeds, and del credere commission $1\frac{1}{2}\%$ on £6,000. Show the above transactions in the books of both the consignor and the consignee, and find the amount due from Messrs. Cox & Co.

(4) Received consignment of goods from J. Rowell valued at £760. Terms:—Agent's commission at 5% on all sales, del credere commission $2\frac{1}{2}\%$ on credit transactions. Paid customs duties £23-14-9; Landing charges and carriage £8-14-9, Fire Insurance £9-10-0; sent J. Rowell an advance of £225. Sold part of Rowell's consignment to H. Thompson for £120, part for cash £475, and took worth £200 into stock

for our own use. Paid brokerage £12. Sent J. Rowell A/S and sight draft the balance due. Make the necessary entries in the books of the consignee and show the balance due, and prepare A/S also.

(5) The Chandausi Flour Mill Ltd., Chandausi consigned 1,600 bags of flour to B at Aden at Rs. 25 including packing, and other charges. B paid Rs. 72 coolie and carrying charges and Rs. 17 as the municipal and dock charges. 200 bags were sold at Rs. 22 each, and 300 bags at Rs. 21-8-0 each. 5 bags were spoiled in transit and the remaining bags were cleared at Rs. 28 each. The selling commission of $2\frac{1}{2}\%$ was charged. The Flour Mill had already drawn a B/E. for Rs. 15,000 and the balance was received by cheque. Pass the necessary journal entries in the books of the consignor, and write out the consignment and B's a/cs in the books of the Mill.

(6) A sends out a consignment of the value of Rs. 5,600 to B, drawing on the latter for Rs. 4,000 as an advance against the same, and pays Rs. 475 for freight, and other charges. B pays Rs. 250 for duty, dock dues etc. He sells on credit half the lot for at Rs. 4,200 and half of the remaining is sold for cash Rs. 2,000 B's remuneration is $2\frac{1}{2}\%$ per cent. on the sale proceeds.

B sends out Account Sales, and a draft to A for the balance as shown therein. Rs. 1,250 worth of goods are on hand with B. Open the necessary accounts in the books of A and B, respectively recording the above transactions.

(7) Messrs. Edwards & Co., London consigned to Messrs. Thomas & Co., of Sydney 1,000 blankets of £0-9-6 each, 1,000 pieces of coating of 24 yds. each @ 5d. a yard; and 2,000 pieces of Shirting of 24 at 5d. a yd. and 2,000 pieces of shirting of 24 yds. each @ 2½d. a yard, and paid cartage, and packing charges £11-5-6, railway freight £2-10-0, and marine insurance and freight £23-12-0. At Sydney Messrs. Thomas & Co. paid landing and other charges on the three bales @ £0-13-6 per bale, and cartage to the shop @ 0-1-3 per bale. £32-9-6 were paid by way of customs charges. 300 blankets were sold @ 0-14-3, 200 at 0-13-6, and 400, at 0-15-0, 50 blankets were found damaged, and were sold for £15 in a lot. 500 pieces of coating were sold for 15s. a piece, and 300, at 18s. a piece. All the shirting pieces were sold at 5d. a yd. Thomas & Co. charged 5% commission, and 2½% del credere commission on £1,280, which was the amount of the debtors. The expenses are to be charged equally on all the types of goods.

A draft of £1,000 drawn on Thomas & Co. was discounted for £985. Prepare the consignment a/c and consignee's %6, and show the balance due.

(8) A & B enter into a joint venture to ship goods abroad, and to share the profits equally. A sends goods to the value of Rs. 15,000, pays freight Rs. 1,500, and sundry expenses Rs. 1575. B sends goods valued at Rs. 10,750, and pays freight and insurance Rs. 1,200 and sundry expenses Rs. 750. B advances to A Rs. 6,000 on account of the venture. A receives A/S. and remittance of net proceeds for the whole of the goods amounting to Rs. 37,500. Show how these

transactions would appear in the books of A and B respectively, assuming that the final settlement is made between them.

(9) A and B enter into joint venture to ship goods abroad. A sends goods to the value of £1,000, pays freight £ 100 and sundry expenses £ 150. These transactions take place on January 1st 1922. B sends goods valued at £750 on February 1st and pays freight and insurance £80 and sundry expenses £50. B advances to A on March 1st. £450 on account of the venture. The whole of the goods were sold for £2,500 on 1st. April and the amount was received by A. Final settlement between A and B was made on 30th April 1922. Show these transactions of the venture in the Books of A and B respectively.

(10) A of Ahmedabad and B of Bombay enter into a joint venture to consign 100 bales of cloth to Calcutta to be sold on their joint risk, which is in proportion of $\frac{3}{5}$ and $\frac{2}{5}$ respectively.

A sends 60 bales at Rs. 1,200 each paying for expenses Rs. 1,800. B sends 40 bales at Rs. 1,000 each paying for freight and other charges Rs. 1,000.

All the bales are sold by C for Rs. 1,40,000 out of which C deducts Rs. 600 for his expenses, and charges commission at 3 per cent. Remits a B/E for Rs. 70,000, which being payable at Ahmedabad, is cashed by A, who retains the proceeds of the same. The balance is remitted to B.

Prepare the joint venture accounts, and the Co-adventurer's accounts in the ledgers of both the Co-adventurers.

ANSWERS.

Exercise I.

Totals of the Journal.

(1) Rs. 8,530	(2) Rs. 14,325.	(3) Rs. 4,610.
(4) Rs. 3,420	(5) Rs. 13,057.	(6) Rs. 7,648.
(7) £4,675-15-0.	(8) Rs. 4,615.	(9) Rs. 14,215.
(10) £661-10-0.	(11) Rs. 16,310.	(12) Rs. 8,562.

Exercise II.

Trial Balance totals by the third method.

(1) £492-16-10.	(2) Rs. 525	(3) £1,830-10-2.
(4) £1,375-18-6	(5) Rs. 5,775	(6) £1,173.
(7) Rs. 4,360.	(8) Rs. 9,915.	(9) Rs. 13,000.
(10) Rs. 27,000.		

Exercise III.

Gross Profit.	Net Profit.	Bal. of Cap. a/c.	Total of B/S.
1. £2,971-13.	L. 962-15-6.	5,799-7-10.	5,799-7-10.
2. Rs. 40,000.	36,000.	86,000.	96,000.
3. Rs. 46,500.	36,600.	69,800.	87,800.
4. Rs. 3,911	3,338.	16,420.	22,747.
5. Rs. 34,000.	32,950.	82,950.	132,950.
6. £3,310.	2,790.	11,790.	13,510.
7. L. Rs. 20,690.	L. 34,360.	2,490.	92,340.

Gross Profit.	Net Profit.	Bal. of Cap. $\frac{3}{4}$ ¢.	Total of B/S.
8. L. Rs. 3,307.	L. 7,604.	5,870.	8,078.
9. Rs. 9,179.	6,913.	31,913.	34,703.
10. £ 1,196-9-9.	347-19-7.	4,422-9-7.	5,531-14-5.

Answers to examples in Exercise II.

1. £ 55-8-6	35-18-6	278-15-4	428-15-4
2. Rs. 6-3-8	L. 3-12-4	496-3-8	521-3-8
3. £ 57-1-1	63-18-7	1,797-2-6	1,877-11-3
*4. £511-17-6	476-8-6	1,076-8-6	1,852-7-0
5. L. Rs. 167	L. 252	3,468	5,498
6. £ 259	229	1,179	1,352
7. Rs. 750	650	4,180	4,790
8. L. Rs. 385	L. 490	4,730	9,275
9. Rs. 832-8-0	672-8-0	10,672-8	13,672-8
10. Rs. 2,350	2,158	27,158	29,158

Exercise IV.

Cash Bal.	Bank Bal.	Discount.	
		Dr.	Cr.
1. £236-16-10	—	—	—
2. Rs. 5,476	16,174	—	—
3. Rs. 500-10-6	885-8-0 (Cr.)	10-0-0	5-0-0
4. Rs. 687-0-9	7,885-2-3	—	—
5. £ 25-7-2	0-4-8 (Cr.)	1-10-2	1-4-4
6. Rs. 9,084-15-0	5,156-5-6	192-8-6	30-0-0

* All types of goods taken into one account.

9. Cash Book balance £600-10-10.
11. Pass Book balance Rs. 2,299-15-3.
12. Amount received from the cashier £2-9-6.
13. Petty cash balance Rs. 17-3-9
14. Petty cash balance Rs. 8-7-0.

Exercise V.

Gross profit	Net profit	Bal. of Cap. %	Total of B/S.
1. £ 105-1-6	99-1-0	484-1-0	652-16-0
2. £ 420-10-1	375-13-2	1,909-6-6	2,384-5-11
3. Rs. 6,520-0-0	4,332-0-0	34,332-0-0	42,382-0-0
4. Rs. 191-9-6	146-19-0	2,146-10-6	2,794-6-0
5. Rs. 2,850	1,348-0-0	36,900-0-0	37,700-0-0
8. Bad Debts £ 609-0-0.			
9. B's account Dr. Balance £ 375.			
10. Bad Debts Rs. 274-8-3.			
11. Total of the Bill Book £ 1,410-5-6.			

Gross profit	Net profit	Bal. of Cap. %	Total of B/S.
13. Rs. 3,410	Rs. 1,895	Rs. 18,122-8-0	Rs. 20,682-8
14. „ 12,500	„ 5,825	„ 265,900	„ 282,050
15. „ 1,820	L. „ 1,725	„ 20,495	„ 26,925

Exercise VI.

Charged to P. & L. %.

1. 1st year £ 1,900 2nd year £ 500. Discount Reserve £ 617-10-0.
2. „ £1,265 „ £925-11-0.

	Gross Profit.	Net Profit.	Bal. of Cap. a/c.	Total of B/S.
3. Rs.	12,800	5,380	31,450	39,360
4. Rs.	92,500	71,850	140,650	208,150
5. £	26,263	14,658-10-0	54,658-10-0	72,658-10-0
6. Rs.	11,300	7,500	23,400	26,900
7. £	15,767-13-0	7,186-0-10	32,165-3-9	43,044-1-3
8. £	5,208	2,073-2-6	2,899-2-6	3,224-2-6
9. Rs.	28,000	11,675	41,675	95,925
10. L Rs.	34,571	L. 43,824-8-10	106,175-7-2	141,071-7-2
11. £	4,297	L. 1,342-10-6	9,312-9-6	14,429-19-6
12. £	29,180	21,839	67,439	95,929
13. Rs.	15,474	8,946	48,050	78,934
14. £	8,588-8-11	4,376-17-4	16,157-19-4	18,612-2-11
15. £	1,541-15-5	1,074-6-3	5,640-4-8	7,857-19-9
16. £	1,650	825	6,125	7,675
17. £	3,100	1,070	5,815	9,045

Exercise VII.

1. Profit reduced by	Rs.	70	0	0
2. " "	"	25,450	0	0
3. " balance	"	3,800	0	0
4. " increased by	"	400	0	0
5. Suspense account Cr. balance	"	8	7	9
6. Profit increased by	"	936	6	0
Suspense a/c Cr. balance	"	0	0	11
7. Profit reduced by	"	35	1	10
Suspense a/c Dr. balance.	"	259	12	6

Exercise VIII.

1. Gain Rs. 38. Balance due Rs. 1,588.
2. „ £ 571. Draft for £ 1,441.
3. „ £ 1,198-11-1. Amount due £3,963-17-10.
4. Balance due £473-5-6.
5. Loss Rs. 996-12-0. Due from B. Rs. 9003-4-0.
6. Gain Rs. 1,751-4-0. B's a/c Dr. balance Rs. 1,795.
7. „ £729-0-1. Balance £1,126-12-6.
8. „ Rs. 6,725. Due to B. Rs. 22,062-8-0.
9. „ £ 370. A debtor to B for £1,515.
10. „ Rs. 20,400. B debtor to A Rs. 16,040.

TEST QUESTIONS.

CHAPTER I.

1. What is book-keeping?
2. Explain fully the theory of Double Entry System of book-keeping.
3. What is a journal, give its ruling.
4. Give the advantages of Double entry System.
5. Write short notes :—
An account, a ledger, and a narration.

CHAPTER II.

1. Explain the uses of the different columns of each side of the ledger.
2. When are amounts entered on the debit and credit sides of a ledger account?
3. What is a Trial Balance? Explain the important methods of preparing the same.
4. What are the common errors that disturb the agreement of a Trial Balance.
5. What errors cannot be disclosed by a Trial Balance?

CHAPTER III.

1. What is a Trading Account, and how is it compiled?
2. How and at what price the closing stock is taken into account?
3. What is a Profit and Loss account and what information does it give?
4. What is a Balance Sheet and what is its function?
5. What are assets and liabilities? Explain fully the various subdivisions of assets.
6. Is there any rule for writing the assets in a particular order?

CHAPTER IV.

1. Why is a separate book kept for cash transactions?
2. How many forms of Cash Books are in use? Explain them.
3. How is discount recorded in the cash book and how is it posted?
4. What is a Reconciliation statement? How is it compiled?
5. What is the best way of recording petty cash payments?
6. What are the advantages of Imprest system of Petty Cash?

CHAPTER V.

1. How are purchases recorded?
2. What is a Sales Book and how is it written?
3. What are the advantages of keeping Purchases and Sales Books?
4. What are Returns Books and for what entries are they used?
5. What are columnar Purchases and Sales Books.
6. How items are posted from Bought Book and Return Outwards Book?

CHAPTER VI.

1. Why adjustments are necessary at the time of closing the books?
2. What is the procedure adopted in adjusting Bad Debts Reserve account?
3. What is depreciation? Why and how is it provided?
4. What is accrued income? How will you treat it in accounts?
5. How is the amount paid in advance brought into account at the time of closing?

CHAPTER VII.

1. How an error can be rectified.
2. What errors require rectifying entries?

3. How will you try to detect errors when a Trial Balance does not agree?
4. How can errors in calculations be avoided as far as possible?

CHAPTER VIII.

1. Define a consignment, a consignor and a consignee.
2. How should consignment outwards be dealt with in the books of the consignor?
3. What is a consignment Inwards Account? Give formula to record transactions regarding the same?
4. How will you deal with the consignment account when the stock is not fully sold at the time of closing?
5. What is a Joint Venture? How does it differ from the consignment?

SUPPLEMENTARY EXERCISES

(Selected from the various examination papers)

1. Mr. Ramchandra Rao opened his shop in Delhi with the following balances on 1st July, 1926: Cash Rs. 2,507, Bank balance Rs. 3,312, Debtors Rs. 8,520, Furniture Rs. 1,728, Goods Rs. 24,372. He owed Rs. 12,350, to The Bombay Co. Ltd., and Rs. 17,850 to the Indian Export and Import House, Calcutta.

Enter in suitable books, post the ledger, and prepare a T. B.:—

	Rs.
July 7. Purchased goods from A. Allen	8,320
8. Received from Debtors	2,350
8. Sold goods to B. Burn	5,782
9. B. Burn returned goods	375
12. Returned goods to A. Allen	727
17. Paid by cheque to A. Allen	3,520
They allowed discount	305
19. Received a B. R. from B. Burn for	3,400
20. Paid cash for goods purchased locally	720
22. Gave a B/P. to The Bombay Co., Ltd.	5,750
25. Purchased goods from The Indian Export and Import House	2,372
25. Paid wages	370
25. Paid by cheque, salaries	1,720
27. Received from the debtors and paid the same into the Bank	4,375

	Rs.
July 29. Purchased goods from C. Carter	3,225
" " Sold to B. Best goods	1,527
30. Drew from Bank for private expenses	700
31. Rent due to Landlord	140
" Wages due to workers	110

2. On 1st September, the state of affairs of Martin & Co., was as follows:—Cash in hand £75, in Bank £850, Goods £925, B. R. £132, B. P. due 15th September £246, owing by A. Boyd £67 and by Neal Dow £315, owed to F. Basile £100 and Dore & Co. £154.

Transactions during the month were:—

Sept. 1.	Purchased goods from Clay	£ 204
" 2.	Sold E. Frome goods	28
" 3.	Bought of Dore & Co.	112
" 3.	Sold F. Grey goods	40
" 5.	Paid Dore & Co. Cash £50 P. N. for £100, allowed discount £4.	154
" 8.	Drew from Bank	125
" 10.	Bought goods for Cash	136
" 11.	Sold A. Boyd goods	48
" 12.	Sold Neal Dow goods	56
" 13.	Received from A. Boyd £80 Dis. £2.	82
" 15.	Received acceptance from N. Dow due 20th Nov.	200
" 15.	Sold goods for Cash up to this date	305
" 16.	Paid into Bank	250
" 16.	B. P. due today paid by cheque	246

Sept. 20.	Sold E. Frome goods	64
" 20.	Forward H. Clay draft 60 days after sight upon Neal Dow	150
" 22.	Sold goods to Tom Fox for P/N. at 3 mos.	75
" 23.	E. Frome pays £58 Discount £2.	60
" 25.	A. Boyd becomes insolvent and pays 6/8 in the £.	11
" 25.	B. R. duly met in Cash	132
" 26.	Bought with Cash a bill and sent same to Basile in settlement of account	100
" 30.	Sold goods for cash up to this date	185
" 30.	Paid into Bank	200
" 30.	Paid expenses this month by cash 10, cheque 25	35

Value of goods unsold £750.

Enter the above transactions in proper books, post them, close the accounts, and prepare P. & L. account, and Balance Sheet as on 30th Sept.

3. On 1st January 1931, H. Wood commenced business with a capital of Rs. 30,000, of which Rs. 25,000 was paid into a banking account and the balance was retained in hand for business purposes. During the month of January his transactions were as follows:—

January—

	Rs.
1 Purchased goods from A. Smith by cheque	7,000
2 Sold goods to W. Williams	510
3 Bought furniture for cash	500

January—	Rs.
4 Purchased from W. Lee goods	580
7 Purchased from J. Carr goods	230
8 Paid W. Lee cheque in full settlement	560
13 Goods bought for cash	150
14 Sold goods to S. Hart	130
16 Received cash from W. Williams	500
Discount allowed	10
31 Cash sales for the month	1,400
Paid Establishment charges in cash	120
Remitted to the Bank	5,350
Paid rent by cheque	50
Paid sundry trade expenses in cash	300
Stock on 31st January 1931 valued at	6,380

Enter the above transactions in the subsidiary books, post to the ledger and prepare a trial balance, the profit and loss account and the Balance Sheet.

4. On 3rd January, 1928, P.C. Tandan commenced business with a capital of Rs. 3,750, represented by cash in hand Rs. 1,250, Stock Rs. 2,000, and Fixtures and Fitting Rs. 500.

Open the books by means of the Journal and then post the following transactions through the proper subsidiary books to the Ledger. Also take out a Trial Balance :—

1928.	Rs.
Jan., 3 Opened an account at Bank with	1,000
„ 4 Bought goods from F. Govin	350
Sold goods to R. Slyn	500

1928.	Rs.
Jan., 4 Bought additional fixtures from the Moon Furniture Mart	250
„ 5 Paid Carriage on Fixtures by cash	25
Sold goods to L. Rau	625
„ 6 Received from R. Slyn Cash	475
Discount allowed	25
Cash Sales to date	135
„ 7 Paid into Bank	450
„ 8 Paid Wages in cash	50
Withdrew cash for personal use	40
Purchased goods at auction by cheque	60
„ 10 Accepted a B/E. drawn by the Moon Furniture Mart at 3 m/d.	250
„ 12 Received cheque from L. Rau	875
„ 13 Paid cheque into Bank	375
Bought goods from R. Prasad & Sons	750
„ 14 Returned part of goods to R. Prasad & Sons	125
„ 15 Cash Sales to date	175
Paid F. Govin by cheque on account	200
Paid Wages in Cash	50
Withdrew by cheque for personal use	40

Taking Rs. 3,725 as the closing stock prepare Trading, P. & L. account and the Balance Sheet.

5. Mr. Rambhan, Druggist commenced his business in Bombay on 1st January, 1925 with the following assets: Cash Rs. 8,500. Bank Rs. 3,750. Medicines Rs. 17,400. Surgical instruments Rs. 4,292.

Horse and Cart Rs. 875. B. R. Rs. 1,330. Messrs. N. Powell & Co. owed him Rs. 3,144. Rs. 8,495 were due to Messrs. Kemp & Co., and Rs. 3,796 to Messrs. Philips & Co.

- 5th Jan. Borrowed Rs. 7,000 from B. Ram Narain and paid the same into the Bank.
- 8th " Purchased from Messrs. Kemp & Co. medicines Rs. 7,285, surgical instruments Rs. 1,733.
- 12th " Returned medicines worth Rs. 500 to Messrs. Kemp & Co.
- 14th " Cash sale: medicines Rs. 728, surgical instruments Rs. 329.
- 16th " Drew from Bank and paid wages Rs. 328.
- 19th " Received a B. R. from Messrs. N. Powell & Co. Rs. 728.
- 22nd " Sold to Dr. Sams, medicines Rs. 132.
- 24th " Dr. Sams cleared his account by paying a cheque for Rs. 130, Rs. 2 being the discount.
- 26th " Paid salaries Rs. 175 by cheque and Rs. 15 cartage, Rs. 8 postage in cash.
- 28th " Paid Messrs. Kemp & Co. Rs. 2,392 and gave them B. P. for Rs. 3,000.
- 31st " Rent due to landlord Rs. 100 and wages to the coolies Rs. 125.

Enter the above transactions in proper books, and prepare a Trial Balance.

6. On the 1st January 1921, Mr. Roy's books showed the following balances:—

Asset:—Cash in hand Rs. 32; Cash in Bank Rs. 130; Goods on hand Rs. 410; Sen Rs. 38; Hartley Rs. 50.
Liabilities:—Verma Rs. 90; Sharma Rs. 50.

During the month his transactions were:—

	Rs.
Jan. 1. Bought goods for cash	25
" 2. Received from Sen a cheque on account	15
" 4. Sold goods to Hartley	75
" 4. Accepted Verma's B/E at four months	30
" 8. Sold goods to Sen	15
" 12. Sent cheque to Sharma	40
" 15. Bought furniture and paid by cheque	65
" 21. Sold goods for cash	90
" 23. Paid into Bank	50
" 24. Paid for carriage	12
" 28. Mr. Roy paid a private bill with his firms cheque	10

Enter the above items into the proper subsidiary books.

7. On December 1, 1926, the following are some of the balances appearing in Messrs. Abdul Majid & Sons' Ledger:—

Cash at Bank Rs. 15,500, Cash in hand Rs. 600, Stock on hand Rs. 8,500, Rent due Rs. 750 Bills Payable Rs. 2,000. P. Jones Dr. Rs. 1,700 A. Smith Dr. Rs. 3,000, W. Green Cr. Rs. 3,000, T. Robinson Cr. Rs. 1,650.

Open the ledger with the above opening balances and enter the following transactions in the proper subsidiary books and post same to the Ledger:—

	Rs.
Dec. 1 Bought of W. Green, Paints	1,800
" 3 Sold to A Smith, Paints	2,200
" 5 Bought of T. Robinson, Paints	3,500
" 6 Sold to P. Jones, Paints	1,000
" 10 Paid W. Green by Cheque	3,000
" 13 Received from A. Smith Cheque	2,900
Allowed him discount	58
" 14 Accepted T. Robinson's Draft at three months	5,000
" 16 Sold to A. Smith, paints	1,180
Paid Rent by Cheque	750
" 18 Sold to P. Jones, Paints	2,200
" 20 At P. Jones' request drew on him at three months for	5,000
" 23 Discounted P. Jones Acceptances at the bankers who charged discount	40
" 24 Paid Bills Payable by Cheque	2,000
" 27 Bought of T. Robinson, Paints	2,500
" 28 Sold to P. Jones, Paints	2,250
" 31 Paid the following by Cheques:	
Private drawing	500
Salaries	300

(a) Balance the Ledger Accounts.

(b) Draw out Trial Balance and Prepare Trading and Loss Accounts and a Balance Sheet.

8. The following is the Balance Sheet of Bose Bros. on January 1, 1927:—

<i>Liabilities.</i>		<i>Assets.</i>	
	Rs.		Rs.
Saw & Sons	86	Cash in hand	12
Bills Payable	65	Cash at Bank	189
Capital	852	Stock	363
		Bills Receivable	180
		A. Some	39
		J. Rose	118
		Furniture	102
Total	1,003	Total	1,003

During the month of January the following transactions took place:—

Jan. 2	Received cheque from J. Rose in full settlement of his account and paid same into Bank	115 ³
" 3	Sold goods to A. Some	21
" 5	Received B/E at 3 mos. from A. Some	50
" 6	Gave Shaw & Sons bill received from A. Some and cheque for Rs. 32; discount Rs. 4; Total	86
" 8	Drew cheque for cash	25
" 8	Bought goods for cash	14
" 12	Paid bill due this day by cheque	65
" 15	Sold goods to J. Rose	94
" 17	B/R. collected by Bank	80
" 21	Paid wages in cash	14

Jan. 24	Sold goods to A. Some	82
" 25	Bought goods from B. Mukerji	105
" 27	A. Some returned half the goods sold him on the 24th as being damaged. Gave B. Mukerji 3 months' bill for	75
" 29	Paid sundry trade expenses by cheque	31
" 31	Depreciation on furniture	2
	Interest on Capital at 5 per cent per annum.	
	Shop rent for one month due but not paid	27
	Stock of goods	375

You are required to enter the above in proper subsidiary books; post same to the Ledger; take out a T.B., and prepare Trading and Profit and Loss accounts and a Balance Sheet.

9. Ratanlal, a grocer, keeps his books by single entry. On January 1, 1929, his assets and liabilities were as follows:—

	Rs.
Cash in hand	25
Cash at Bank	300
Stock at cost	500
Furniture	100
Debtors	265
Creditors	660

During the year he draw out of the business Rs. 300 for his own private purposes.

His assets and liabilities on December 31, 1920, were as follows:—

	Rs.
Cash in hand	10
Cash at Bank	430
Stocks	450
Furniture	120
Debtors	330
Creditors	560

Prepare a statement showing Ratanlal's profits for the year after writing off 10 per cent for depreciation on furniture and providing 10 per cent on the Debtors to cover Bad Debts.

10. The following balances appear in AB's books at 30th September:—

	Rs.
Stock, 1st October	8,000
Bills payable	4,520
Sales	21,300
Discount allowed	150
Gas and fuel	600
Sundry creditors	5,672
Purchases	9,580
Cash in hand	100
Rent, Rates and Taxes	740
Premises	8,000
AB's Capital a/c	15,000
„ Drawings a/c	500
Plant and Machinery	4,500
Wages (manufacturing)	4,760

	Rs.
Depreciation	500
Carriage and freight	900
Travelling Expenses	520
Sundry Debtors	7,360
Trade Expenses	840
Bank overdraft	558

Make a Bad Debts Reserve of Rs. 200.

The stock at 30th September was valued at Rs. 6,800. You are required to prepare Trading and Profit and Loss Account for the year ending 30th September and a Balance Sheet as at that date.

11. How would you rectify the following errors made by your clerk and what effects did these mistakes have on the accounts?

(a) Instead of debiting Lal Mohan with Rs. 220, purchases a/c has been debited.

(b) Instead of crediting sales a/c with Rs. 175 the a/c has been debited.

(c) Maintenance of plant Rs. 72 has been debited to plant a/c.

(d) Discounts earned have been totalled to a figure Rs. 15 more than what it ought to have been.

(e) A cash-purchase of goods of Rs. 50-7-0 has been debited to Krishna Prasad with Rs. 57.

12. On 1st March, 1907, Wm. Slater commenced business with a balance at his bankers of £1,500 and Cash in office £225. Enter in the proper books, post to Ledger, and take out T. B.

Mar. 1	Purchased goods for cash	£ 175
" 2	Paid for office Furniture and Fittings, cash	10
" 5	Paid into Bank	25
" 6	Sold W. Anson, Goods	142
" 9	Received from W. Anson on Account	100
" 12	Sold J. Wormald, Goods	35
" 15	Received from J. Wormald £32, allowed Dis. £3	35
" 16	Bought of Sims & Co., Goods	80
" 19	Paid Cheque to Sims & Co., in full settlement	76
" 19	Purchased from Emile Robarts, Goods	50
" 31	Cash Sales for month	20
	Paid wages by cash	1½
	Paid rent for month by cheque	10
	Paid into Bank	100

13. From the following particulars of Messrs. R. & Co., Lucknow, prepare a Trading a/c and a B/S. as on 31st December, 1927:—

Stock Rs. 1,250, Sales Rs. 11,800, Bad debts Rs. 180, B. R. Rs. 2,730, Machinery Rs. 6,230, Wages Rs. 1,000, Returns outwards Rs. 1,000, Returns inwards Rs. 1,450, Purchases Rs. 8,900, Cash on hand Rs. 895, Cash at Bank Rs. 1,275, Salaries Rs. 750, Creditors Rs. 2,780, Debtors Rs. 2,490, Discount (dr.) Rs. 320, B. P. Rs. 2,300,

Capital Rs. 10,000, Carriage Rs. 100, Insurance Rs. 380.
Printing charges Rs. 270, Depreciation Rs. 570.

Allow $4\frac{1}{2}\%$ interest on Capital. Stock on hand
Rs. 3,700.

14. From the following Trial Balance of Messrs. Albert & Co. Calcutta, prepare a Trading a/c, P. and L. a/c and the Balance Sheet as on 31st Dec. 1926:—

Capital Rs. 40,000. Creditors Rs. 5,720. B. P. Rs. 1,527.
Sales Rs. 69,327. Loan Rs. 10,000. Debtors Rs. 1,885.
Salaries Rs. 4,925. Discount (Dr.) Rs. 423. Postage Rs. 225.
Bad Debts Rs. 187. Interest (Dr.) Rs. 1,195. Insurance
Rs. 292. Depreciation Rs. 325. Machinery Rs. 17,000.
Stock Rs. 10,945. Purchases Rs. 60,395. Wages Rs. 4,392.
Buildings Rs. 24,385.

Allow 5% interest for the year. Value of goods
on hand is Rs. 13,355.

15. Prepare a Trading Account and Profit and Loss account and Balance Sheet from the following balances on 31st December, 1923 in the books of Sampat & Co., Stock on 1st January, 1923, was Rs. 800. Purchases Rs. 2,400; Sales Rs. 3,300; Sundry Debtors Rs. 700; Sundry Creditors Rs. 450; Suspense Rs. 150. Furniture and Fittings Rs. 1,250; Rent paid Rs. 100; Rent unpaid Rs. 150; Depreciation charged 30th June, 1923 on Furniture and Fittings Rs. 150; Insurance premium paid Rs. 100; Carriage Rs. 50; Cash Rs. 450; Capital Rs. 3,250. The Stock of goods on 31st December, 1923, was valued at Rs. 700.

16? What is meant by 'renewing' a bill? A receives B/E. from B for Rs. 100 and discounts it with his banker for Rs. 95. On the bill becoming due B requests A to renew it, which A does, adding Rs. 2 to the new bill for interest. What journal entries will be necessary to record this transaction in A's books.

17. A. Green purchases by a Draft goods worth Rs. 8,000 from R. Robinson with a promise to pay him after three months. R. Robinson endorses the Draft to A. Peters after a month, who discounts it with a bank at discount of 2 per cent. Show how this transaction will be dealt with by the various parties concerned

18. From the following Trial Balance taken from the books of a merchant, prepare Trading and Profit and Loss Account for the year ended 31st December, 1928, and a Balance Sheet as on that date. Stock on hand 31st December, 1928, Rs. 500.

	Rs.	Rs.
Capital Account	...	1,080
Drawings Account	...	400
Salaries	...	150
Wages	...	350
Rent	...	50
Furniture and Fittings	...	100
Rates and Taxes	...	30
Discounts allowed	...	50
Purchases	...	2,900
Sales	...	3,500

	Rs.	Rs.
Return Inwards	30	
Return Outwards		20
Discount received		20
Sundry Debtors	560	
Sundry Creditors		480
Stock, 1st January, 1928	450	
Cash at Bank	560	
Cash in hand	70	
Total	5,100	5,100

19. Enter the following transactions of a trader in a three column Cash Book and balance it:—

March 1930

- " 1. Commenced business with Rs. 1,000 in cash.
- " 2. Paid into Bank Rs. 300.
- " 3. Bought furniture and paid for same by cheque Rs. 70.
- " 4. Purchased for cash an almirah Rs. 24.
- " 5. Bought goods and paid for same by cheque Rs. 150.
- " 6. Sold goods for cash Rs. 120.
Paid into Bank Rs. 50.
- " 7. Drew cheque for wages Rs. 15.

20. A sold on 1st February, 1930, to B a parcel of goods to the value of Rs. 580; the terms of payment were originally cash in a month, but subsequently these terms were altered, B arranging to pay Rs. 130 in cash

on the goods being delivered, and as to the balance to accept A's draft at two months for Rs. 250, and at four months for Rs. 200, B also agreeing to pay (in cash) discount at 4% with 1% commission on the two bills. This agreement was carried out; the Rs. 130 with the discount and commission was paid by B, and the two drafts as accepted by him were handed over to A.

Make the necessary Journal entries to record the above transactions in the books of B and then post them to the Ledger.

21. Write up in the books of both parties, the Ledger accounts (including Cash) for the following transactions in the bills.

On 1st January Silver accepts a 3 months' bill for Rs. 125 drawn on him by Goldman for the latter's benefit. Goldman discounts the bill at the rate of $3\frac{1}{2}$ per cent and at maturity forwards Silver a cheque with which to meet the bill.

22. From the following Trial Balance of Messrs, Bal & Sons, Cawnpur prepare a Trading and P. and L. A/cs and B. S. as on 31st March, 1928:—

Stock (1-3-1928) Rs. 2,720 Capital Rs. 18,000. Sales Rs. 12,439. Returns Outwards Rs. 1,200. Wages Rs. 1,510. Returns inwards Rs. 1,000. Carriage Rs. 400. Purchases Rs. 10,492. Salaries Rs. 1,400. B. R. Rs. 3,291. Depreciation Rs. 600. Discount (Cr.) Rs. 627. Postage Rs. 132. Insurance Rs. 119. Commissions (Cr.) Rs. 390. Cash Rs. 1,400. Bank Rs. 1,900. Buildings Rs. 5,290. Machinery Rs. 6,710. B. P. Rs. 4,827. Creditors Rs. 7,581. Debtors Rs. 8,106.

Allow 5% interest on Capital and reserve 5% for Bad and Doubtful Debts. Stock on hand Rs. 7,929.

23. Mr. Balkrishan started his business on 1-1-1928 with the following balances: -

Cash Rs. 1,17,000, Bank Rs. 4,300, Building Rs. 5,320, Machinery Rs. 8, 237. Rama owed him Rs. 2,400 He owed Krishna Rs. 1,227. B. R. Rs. 4,000. B. P. Rs. 8,299. Goods on hand Rs. 4,210.

Enter the following transactions in proper books, post them in the ledger, and prepare a T. B.:-

	Rs.	A
January 5. Purchased goods from Kali Prasad	4,371	0
" 7. Returned to him goods	257	0
" 8. Received cash from Rama and paid it into bank.	1,000	0
" 8. Allowed him discount	15	0
" 11. Purchased furniture from S. & Co.	3,701	0
" 15. Sold goods to Mehar Ali	1,305	0
" " " Kumar	767	0
" 17. Paid S. & Co. in settlement	3,550	0
" 20. Paid postage	3	8
" 20. Coolie hire	5	9
" 25. Mehar Ali returned goods	271	0
" 26. Drew a bill on Kumar	500	0
" 29. Paid Krishan by cheque	800	0
" 31. Paid salary	325	0
" 31. Wages	128	0
" 31. Rent to be paid for the month...	75	0
" 31. Rent due to us from Jagmohan	20	0

24. Mr. Bulwant has his account in the Imperial Bank of India. According to his books his bank balance as on 31st December, 1928, ought to have been Rs. 729-8-0. He sent cheques of Rs. 900-12-0 to the bank for collection, but cheques amounting to Rs. 437-11-0 are to be collected as yet. Out of the cheques issued by him in satisfaction of his debts, cheques of Rs. 293-7-0 have not been presented for payment.

Find out the Pass Book balance by preparing the Bank Reconciliation Statement.

25. On 1st January, 1933 Mr. Nepalsing starts his business with Rs. 12,000 in Cash, Rs. 15,000 in bank and Rs. 1,200 worth of silk and Rs. 1,000 worth of cotton on hand. He owed to Janki Prasad Rs. 308 and to Rup Ram Rs. 900; Ram Bharosay owed him Rs. 1,200 and Ram Lal Rs. 370.

- Jan. 2. Purchased from Janki Prasad cotton Rs. 2,800 and silk Rs. 800.
- „ 3. Returned cotton of Rs. 300 silk of Rs. 100 to Janki Prasad.
- „ 4. Paid Janki Prasad by cheque Rs. 1,000 and Rs. 400 and accepted his bill of Rs. 1,000 due 30 d/s.
- „ 6. Sold to Ram Bharosay cotton Rs. 1,500 and silk Rs. 1,800 and charged him Rs. 15 for freight and other charges.
- „ 8. Ram Bharosay returned silk of Rs. 50 and cotton of Rs. 95.
- „ 8. Recd. a cheque of Rs. 1,000 from Ram Bharosay and paid the same into the bank.

- " 9. Drew from bank Rs. 320 for private expenses.
- " 11. Purchased from Ram Lal silk Rs. 700 and cotton Rs. 300.
- " 12. Sent to Ram Bharosay cotton Rs. 800 and silk Rs. 200.
- " 12. Paid wages Rs. 208 Rent Rs. 25 and postage Rs. 8.
- " 15. Purchased furniture for office from Premchand for Rs. 250 and paid half the amount to him by cheque.
- " 17. Ram Bharosay returned us cotton of Rs. 40 and silk Rs. 35.
- " 20. Sold silk for cash Rs. 145 and cotton Rs. 195.
- " 21. Sold silk to Ganeshi Lal Rs. 420 and drew on him a bill 1 m/d.
- " 22. Premchand allowed us Rs. 20 by way of discount and we paid the balance in cash.
- " 25. Ram Chandra sold his office building for Rs. 2,200 and furniture for Rs. 310.
- " 29. Paid wages Rs. 220, carriage Rs. 25 office expenses Rs. 22 and telegraph charges Rs. 2-8-0.
- " 31. Purchased cotton from Rup Ram Rs. 250 and sold the same to Ganeshi Lal for Rs. 310. Ganeshi Lal paid the price in cash and was allowed Rs. 10 as discount.

Make the above entries in the proper books, post them and prepare a Trial Balance. (Use columnar Sales, Bought and Returns books).

HIGH SCHOOL & INTERMEDIATE BOARD U. P.
High School Examination Papers
1933.

1. Explain briefly the principles underlying the Double Entry System of book-keeping, and point out the advantages of this system over Single Entry System.

2. What is meant by the Imprest System of keeping the Petty Cash? Submit a ruling of such a Petty Cash Book and enter therein three specimen transactions.

3. Give journal entries to correct the following errors in accounts:—

- (a) An Invoice received from Ram Lal for Rs. 550 was entered in the books as for Rs. 55 only.
- (b) A sum of Rs. 1,000 paid for repairs done to Buildings was debited to Buildings Account.
- (c) Rs. 600 paid for rent was debited to the landlord's personal account.
- (d) Rs. 200 were debited to Ram Nath instead of being credited.

Pass the necessary journal entries to rectify the above mistakes.

4. From the following Trial Balance of a trader, prepare Trading and Profit and Loss Account for the

half-year ending 30th June, 1932, and a Balance Sheet as at that date:—

	Dr.	Cr.
	Rs.	Rs.
Capital, 1st Jan., 1932	...	1,125
Stock, 1st Jan., 1932
Purchases
Returns Inwards
Returns Outwards	...	38
Sales	...	3,514
Duty on Imported goods
Carriage on purchases
Carriage on sales
Office salaries
Drawings
Rent paid
General Expenses
Commission earned	...	200
Bank balance
Sundry debtors
Sundry creditors	...	776
Bills receivable
Horses and carts
Total	5,653	5,653

Stock in hand at 30th June, 1932, was worth Rs. 981.

5. On 1st January, 1932, X sold goods for Rs. 500 to Y, receiving a B/E for that amount payable two months after date. X discounted the bill with his banker for Rs. 495. On the due date, the bill was dishonoured X paid the amount due to the bank and received Rs. 200 as first and final dividend from Y.

Show the necessary accounts in the ledger of X.

1932.

Q. 1. On Jan. 1, 1930, the position of business of Messrs. S. Raman & Co. was as follows:—

<i>Assets.</i>		<i>Liabilities.</i>	
	Rs.		Rs.
Cash	12	Shiam & Sons	86
Bank	189	B/P	65
Stock	363		
B/R	180		
A. Ram	39		
J. Parsad	118		
Furniture	102		

Transactions for the month were:—

	Rs.
Jan. 2—Sold goods to A. Ram	21
" 3—Reed. cheque from J. Parsad in full settlement of his account and paid same into Bank	115
" 5—Reed. from A. Ram a B/E at 3 months	50
" 6—Gave Shiam & Sons the bill received from A. Ram, and a cheque for Rs. 32; discount Rs. 4; total	86
" 9—Drew cheque for cash	25
" 9—Bought goods for cash	14
" 12—Paid Bill due this day by cheque	65
" 15—Sold goods to J. Parsad	94
" 17—Bill Receivable collected by Bank	80
" 21—Paid wages in cash	14
" 24—Sold goods to A. Ram	82
" 25—Bought goods from B. Lal	105
" 27—A. Ram returned half the goods sold to him on the 24th instant	
" 29—Gave B. Lal 2 mos. bill for	75
" 30—Paid sundry expenses by cheque	31

(a) You are required to enter the above in proper subsidiary books, post to the ledger, and extract a Trial Balance.

(b) From the above T/B prepare Trading and Profit and Loss A/cs, and a Balance Sheet.

Stock on 31st January, 1930, was worth Rs. 975

2. A Adams sold goods to B. Benson for Rs. 150, receiving a cheque for Rs. 50, and a B/E (due one month) for the balance.

A. Adams sent the cheque to his Banker, and discounted with him the Bill for Rs. 96.

B. Benson, however, failed to meet the bill on maturity, and the Banker returned it to A. Adams, charging Rs. 1-8-0 for expenses.

Next, B. Benson requested A. Adams to renew the Bill for one month more, and add Rs. 2-8-0 for interest, which he did.

Record the above transactions in the journal of A. Adams.

3. Explain any four of the following:-

- (a) Reserve for Bad and Doubtful Debts,
- (b) Depreciation, (c) Drawings, (d) Fixed Assets,
- (e) Real Accounts, (f) Trade Discount,
- (g) Accommodation Bills.

4. What is a Reconciliation Statement? Prepare one from the following particulars:-

Balance as per Cash Book, Rs. 972-13-0.

Balance as per Pass Book, Rs. 1,751-2-4.

Cheques not yet presented—

- (i) Rs. 324- 4-6.
- (ii) Rs. 63-14-0.
- (iii) Rs. 263-13-9.
- (iv) Rs. 73- 4-0.
- (v) Rs. 276- 0-7.

Not entered in the Cash Book—

Interest on Bank Balance, Rs. 14-4-0.

Bank charges, Rs 2-3-6.

Cheques received and entered in the Cash Book, but not sent to Bank yet:--

- (i) Rs. 200.
- (ii) Rs. 35.

—:O:—

1931.

Q. 1. On 1st March, 1929, X sold to Y goods of the value of Rs. 1,200 and drew upon him at 3 months for that amount. On 15th April, 1929, X purchased from A goods worth Rs. 2,000; he handed A a cheque for Rs. 700 and Y's acceptance in full settlement of the purchase. A discounts the Bill with his bankers for Rs. 1,170. On maturity, the acceptance is dishonoured by Y and X pays up the amount. Show how the transactions would be recorded in the books of X, Y and A.

Q. 2. Explain the following:—

Opening Entries; Closing Entries; Narration; Fixed Assets; Floating Assets; Gross Profit; Net Profit.

Q. 3. From the following figures, prepare a Trading and Profit and Loss account and a Balance Sheet:—

	Rs.
A. Brown's Drawings Account ...	6,000
A. Brown's Capital Account ...	24,000
Sundry Creditors ...	43,000
Bills Payable ...	4,000
Sundry Debtors ...	51,000
Bills Receivable ...	5,000
Loan advanced to R. Rao ...	10,000
Fixtures and Fittings ...	4,500
Opening Stock ...	47,000
Cash in office ...	900
Cash at the Imperial Bank ...	12,500
Overdraft with the Central Bank ...	6,000
Purchases ...	50,000
Duty and clearing charges ...	3,500
Sales ...	1,28,000
Staff salaries ...	9,500
Returns from customers ...	1,000
Returns to creditors ...	1,100
Commission and travelling expenses ...	4,700
Trade expenses ...	2,500
Rent Account ...	2,000
Discount received ...	4,000

The closing stock amounted to Rs. 52,000, and Rs. 300 were outstanding for clearing charges.

Q. 4. What do you understand by the Single Entry System of book-keeping? How does this system differ from the Double Entry System? Explain the advantages of the latter system as compared with the former.

Q. 5. A book-keeper makes the following mistakes in writing up his books. Give entries necessary to rectify the mistakes;—

(1) Rs. 500 paid for Repairs to Machinery have been debited to Machinery A/c. (2) Goods worth Rs. 300 sold to B have been debited to C's account (3) Rs. 100 paid as salary to the Manager have been debited to his personal account. (4) Goods worth Rs. 500 purchased from E have not been passed through the Purchases Book at all, but the goods have been included in the closing stock.

What would be the effect on the Profit and Loss A/c. if the mistakes were not corrected?

AJMER & RAJPUTANA BOARD

High School Examination Papers

1933.

NOTE.—Answer only **five** questions. Questions **6** and **7** are compulsory.

1. Explain the different ways of preparing a Trial Balance, and write what you will do if the Trial Balance does not agree.

2. Explain 'Dishonoured Bill'. What steps should be taken by the holder if a bill is dishonoured?

3. Explain carefully the following terms: Accrued Income, Imprest System, Noting Charges, Folioing, Balance b/d.

4. What are adjusting entries? Why are they made? In what books do they appear? Give examples.

5. Do the entries in the Bank pass Book always agree with the entries in the Bank Column of the Cash Book? If not, why not? What will you do, under such circumstances, to reconcile your entries?

6. Write up the following items in Petty Cash Book and carry down the balance as on 6th January, 1932 :—

Jan. 1	Cash in hand	Rs. 5
"	1 Received the amount necessary to make up the Imprest to	20
"	2 Purchased postage stamps	4

Jan. 3	Paid bus fares	Rs. 1
" 4	Received cash for sale of waste paper	5
" 5	Paid tonga hire	1
" 5	Bought string	1
" 6	Bought brown paper	2

Or,

Enter the following in proper bill books:—

1932.		Rs.
Feb. 1	Received B/E at 6 months in payment of Mohan's account	45
" 2	Gave the above bill to Jaikishen in payment of his account	
" 3	Drew a bill at 2 months' upon Sita Ram	100
"	Discounted the above bill at the bank at 6% per annum.	
" 5	Accepted the bill drawn at 3 months' by Ram Kishen	80

Either.

7. From the following prepare the A/c, P. & L. A/c, and Balance Sheet of Lala Girwar Lal for the year ended 31st December, 1931 :—

	Rs.	Rs.
Girwar Lal's Drawings	...	820
Plant and Machinery	...	700
Stock, 1st January, 1931	...	1,050
Carriage Inward	...	250
Carriage Outward	...	100
Wages, Manufacturing	...	1,800
Office Salaries	...	450

	Rs.	Rs.
Purchases and Sales ...	5,670	8,390
• Returns Inwards and Outwards ...	225	350
Rent, Rates, and Taxes, etc. ...	365	
Coal and Coke, etc. ...	425	
Discount allowed and received ...	300	255
Bad Debts written off ...	250	
Debtors and Creditors ...	8,240	7,350
Bills Receivable ...	2,500	
Bank ...	1,020	
Cash ...	176	
Postage Stamps ...	4	
Girwar Lal's Capital ...		6,000
Bad Debts Reserve, 1st Jan. 1931		400
* Bills Payable ...		1,600
Total ...	<u>24,345</u>	<u>24,345</u>

Or,

• Post the following transactions direct into ledger and extract a trial balance:—

1932.

Oct. 1 Goods in stock Rs. 900; Balance at Bank Rs. 88;
B/R. (*E.* October 20) Rs. 1,000; B/R.
(*F.* January 12) Rs. 1,200; *G* owes me Rs. 58;
H owes me Rs. 110; B/P. (*J.* October 4)
Rs. 150; B/P. (*K.* October 15) Rs. 300;
I owe *L* Rs. 99.

„ 4 Paid my acceptance to *J* due this day.

5 Bought goods from *L* Rs. 2,000, and gave him
my acceptance at 2 months for Rs. 5,099.

1932.

- Oct. 10 Sold goods to *G* Rs. 1,500, and drew on him at 2 months for Rs. 1,550 to settle.
- „ 12 Discounted *P*'s bill (discount charged Rs. 15).
- „ 15 Drew cheque to pay my acceptance to *K*.
- „ 20 *D*'s acceptance paid into bank.
- „ 25 *H* pays me in settlement Rs. 60, and I write off the balance as bad.
- „ 31 Trade expenses Rs. 50.
Private expenses Rs. 50.
Value of stock Rs. 2,000.

1932.

NOTE:—Answer only **five** questions. Question No. 7 is compulsory.

1. Explain the system of double entry book-keeping and discuss its advantages.
2. Why has it been necessary to subdivide the Journal? Give its main subdivisions and mention the transactions to be entered in each.
3. Give the rulings of any three books of original entry and enter in each two imaginary items.
4. Differentiate between a Trial Balance Sheet and a Balance Sheet. Is the Trial Balance a conclusive proof of the accuracy of book?
5. What are closing entries? How do you close the Personal accounts. Real accounts, and Nominal accounts?

6. What is the object of preparing a Bank Reconciliation Statement ?

Prepare a Bank Reconciliation Statement from the following particulars: Pass Book balance Rs. 175-4-9; Cheques drawn and not presented Rs. 150; Cheques deposited but not credited by the bank Rs. 86; Bank interest allowed, but not entered in the Cash book Rs. 2-8-6.

7. The following is the Trial Balance of Lala Shri Ram. Prepare Trading and Profit and Loss accounts for the quarter ending 30th September, 1931, and a Balance Sheet as on that date:—

	Rs.	Rs.
L. Shri Ram's Capital	...	1,327
L. Shri Ram's Drawings	...	25
Stock on 1st July, 1931	...	874
Freight on purchases	...	41
Purchases	...	640
Returns Inwards	...	15
Wages (manufacturing)	...	100
Office salaries	...	84
Trade Expenses	...	16
Rent paid	...	40
Rent received from rooms sublet	...	15
Freehold premises	...	500
Machinery	...	235
Sales	...	2,134
Ram Das	...	100
Keshao Chandra	...	44

GLOSSARY.

Acceptance.—When a drawee signs his name across the face of a bill it is called an *Acceptance*. The more appropriate name for a bill before acceptance is a *Draft*.

Accommodation Bill.—It is a bill without any consideration and is put into circulation to raise money on the same by discounting it. It is also called Kite, Windmill or Fictitious bill.

Account—It is a record kept in a ledger of transactions with a particular person or thing. Accounts are divided as *Personal Accounts* (i.e. those relating to persons) and *Impersonal Accounts* (i.e. those relating to things). *Impersonal Accounts* are further subdivided into *Real or Property Accounts* (i.e. relating to various business assets) and *Nominal Accounts* which relate to losses or gains of the business such as wages, trade expenses, etc.

Accrued Income.—It is the income which has fallen due but is not as yet actually received.

Account Sales.—It is a document submitted by the consignee to the consignor of goods showing therein the proceeds of the goods sold, the expenses incurred and also the commission charged.

Allonge.—It is a slip attached to a negotiable instrument to write endorsements thereon when the space on the same is filled.

Allowance.—It is a deduction allowed from an account.

Ante-dated cheque.—It is a cheque bearing a date before the current date.

Asset.—It is a property of any description.* The following are its important kinds:—

Fixed Assets are those which are acquired for the purpose of earning income.

Floating or Circulating Assets are those that are acquired for the purpose of resale or conversion into money at a later date.

Wasting Assets are assets of fixed nature that decrease in value either through wear and tear or through lapse of time.

Fictitious Assets are those items on the assets side of a Balance Sheet which do not represent any tangible possession or property and from which nothing can be realised.

Liquid Assets are those that can be readily turned into money.

Bad Debts are those debts which are not likely to be realised.

Bad Debts Reserve.—It is a reserve made out of the profits in order to make provision for the possible bad debts.

Balance Sheet.—It is a statement showing assets and liabilities of a concern at the time of its annual or periodical closing.

Bank Charges.—These are small amounts charged by the banks by way of commission, charges, etc.

Bank Overdraft.—This is the amount a trader owes to his banker on his current current.

Bearer Cheque is one which can be cashed or negotiated without an indorsement.

Bill of Exchange.—It is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument.

Book Debts are the debts owing to a trader.

Bought Book.—It is a subsidiary book or a book of first entry in which are recorded all the purchases made on credit. It is also called a Purchases Book, Bought Day Book or Invoice Book.

Capital Account.—It is the account of the proprietor in relation to the business.

Cash Book.—It is a book in which all the cash transactions are recorded. Some business houses maintain in this book bank and discount columns also.

Cheque.—It is an unconditional order on a banker signed by the drawer ordering payment on demand of a specified amount, to a specified person or to his order or to the bearer. A *Bearer Cheque* is one that can be cashed or negotiated without an indorsement while an *Order one* is that which needs indorsement for the same.

Circulating Assets.—(See Assets).

Closing Entries —By closing entries are meant the transfers of the various gains and losses from the nominal accounts to a Trading or Profit and Loss Account and the transfer of the balance of the latter to the capital or drawings account.

Compensating Error is an error of an equal amount on both the sides of the ledger.

Consignment.—It is a transaction in which goods are sent to an agent at another place for sale. The person who sends the goods is known as the *Consignor* and the person to whom the goods are sent the consignee.

Cerdit Note.—It is a statement giving details of allowances made for goods returned, over charge, wrong, quality, etc. it is written in red ink.

Credit Slip is a slip sent with the remittance to a bank giving therein the details of remittance.

Crossed Cheque.—It is a cheque bearing on its face two parallel transverse lines with or without the words ' & Co.'

Creditor is a person to whom money is owing by the concern.

Daily Register.—(See Journal).

Days of Grace.—These are the three customary days that are added to the period of the negotiable instruments except in the case of those that are payable on demand.

Debit.—It is the left hand side of a ledger account.

Debit Note.—It is a statement giving particulars of any charge that has become necessary for some reason *e.g.* undercharging, omission of some item in the invoice, etc.

Debtor is one who owes money.

Deposit Slip.—(See Credit slip).

Depreciation.—It is the gradual shrinkage in value of an asset. It is chiefly due to the wear and tear, obsolescence or expiration of time and is a charge against a Profit and Loss Account.

Discount.—It is a deduction allowed off the price of goods or off the amount of an account. *Cash Discount* is the allowance made when receiving or paying money while *Trade Discount* is the allowance on the purchasing or selling price.

Dishonour.—When a bill is not accepted or paid at the time of maturity it is said to be dishonoured. The dishonour may be for non-acceptance or for non-payment.

Drawee is a person on whom a bill is drawn.

Drawer is a person who draws a bill.

Double Entry System.—It is the system of Book-keeping in which both personal and impersonal accounts are kept and a double entry is made in respect each transaction once to the debit and once to the credit.

Draft.—(See Acceptance).

Drawings are the occasional withdrawals of money from business for the use of the proprietor.

Entry is a record of a transaction in the proper book.

Fictitious Assets.—(See Assets).

Fixed Assets.—(See Assets).

Floating Assets.—(See Assets).

Foreign Bill.—(See Inland Bill).

Goodwill.—It is a fixed intangible asset the existence of which is due to good connections or the reputation which a business has acquired, or to the suitable position of a business house.

Gross Loss.—(See Loss).

Gross Profit.—(See Profit).

Impersonal Account.—(See Accounts).

Imprest System.—This is a system of keeping petty cash in which a certain sum generally sufficient for the expenses of a certain period is advanced to the petty cashier and at the end of the period he is paid the amount spent by him thus recouping the fixed amount that is to be with him.

Indorsement.—When a maker or a holder of a negotiable instrument signs the same, otherwise than as such maker for the purpose of negotiation he is said to indorse the same and is called the *Indorser*; while the person in whose favour it is indorsed is known as *Indorsee*.

Inland Bill.—An Inland Bill of Exchange is one which is drawn in British India on a person resident of British India or made payable in British India. Every other bill is a *Foreign Bill*.

Insolvent is one who is unable to pay his debts in full.

Invoice.—It is a document showing therein the quantity description and price of the goods purchased.

• **Joint Venture Account.**—It is the record of transactions made jointly by two or more persons with a view to divide the profits and losses. It is in short a temporary partnership.

Journal.—The Journal or Daily Record or Daily Register as it is called is a book of first entry in which transactions are written from the Waste Book in order of date and in a classified form for the sake of transferring them to the ledger. Now-a-days the pressure on the journal has been greatly relieved by the various subsidiary books.

Kite.—(See Accomodation Bills.)

Ledger.—It is the principal book of accounts in which are maintained in a classified form all the accounts of a trader as made up from the subsidiary books or the books of original entry.

Liabilities.—These are the debts of the firm.

Liquid Assets.—(See Assets).

Loss.—It is the excess of cost price over selling price. *Gross Loss* is the excess of purchase money and purchase expenses over sales and stock as shown by the trading account. *Net Loss* is the total gross loss and selling and other expenses over the gain as shown by the Profit and Loss Account.

Narration.—It is the explanation given for an entry in the journal.

Net Loss.—(See Loss).

Net Profit.—(See Profit).

Nominal Accounts.—(See Account)

Noting Charges are the charges incurred in getting the bill noted after it is dishonoured.

On Demand means on presentment.

Opening Entry.—It is an entry passed to record the items of the last Balance Sheet in the books newly opened.

Pass Book.—It is a book in which are recorded by the banker all the transactions of a party with him.

Payee is the party to whom or to whose order the money of a cheque, a bill, or a promissory note is to be paid.

Personal Account.—(See Account)

Petty Cash.—It is a small sum advanced to an Assistant Cashier or Junior Clerk to make small payments.

Post dated Cheque is one which bears a date later than the current date.

Profit.—It is the excess of selling price over the buying or cost price. *Gross Profit* is the excess of selling money and stock over the purchase money and expenses for purchasing as shown by the trading account. *Net Profit* is the excess of gross profit and other income over the expenses as shown by the Profit and Loss Account.

Profit & Loss Account.—It is an account in which are collected all the items of losses and income with a view to ascertain the result of the working of a period. The excess of the debit side over the credit side is *Net Loss* if otherwise *Net Profit*.

Promissory Note.—It is an instrument in writing containing an unconditional undertaking signed by the maker to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument.

Purchases Book.—(See Bought Book).

Purchases Returns Book.—(See Returns).

Real Account.—(See Account).

Rebate.—When a bill is paid before the due date some allowance for the interest for the period to run is made and is termed 'Rebate'.

Reconciliation Account or Statement.—This is a statement prepared to reconcile the balances of the bank account as shown by the Pass Book and the Cash Book having a bank column or a bank account in the absence of the same.

Renewal of a bill is the act of giving a new bill in place of the one already in circulation which is thus cancelled and is saved from being dishonoured.

Reserve for Bad Debts.—(See Bad Debts Reserve)

Returns are goods returned. *Purchases Returns* are goods returned by the purchasers while *Sales Returns* are those made by sellers, and the books in which these are recorded are known as *Returns Books*. The *Purchase Returns* or *Returns Outwards* book contains entries regarding returns out of purchases while the *Sales Returns* or *Returns Inwards* book contains records of return out of goods sold.

Sales Book.—It is a book in which all credit sales are recorded and is also known as *Day Book*, *Sold Day Book* or *Sales Journal*.

Sales Returns Book.—(See Returns)

Single Entry.—It is a style of book-keeping in which only the personal accounts are recorded and as such is a very defective method and far inferior to the Double Entry system of Book-keeping.

Stale Cheque is one which is some months old usually of six months and over.

Suspense Account.—This is an account to which items are posted as a temporary measures when there is an uncertainty about them.

Trade Discount.—(See Discount)

Trading Account—This is an account made up to ascertain the gross profit or gross loss. It is debited with the opening stock, net purchases, wages, carriage, etc. and credited with the net sales and stock. The excess of credit side shows *gross profit* and that of the debit *gross loss*.

Trial Balance.—It is a list of balances both debit and credit brought together to check the arithmetical accuracy of posting.

Turn over.—Total sales during a given period.

Waste Book.—It is a book in which transactions are entered in a chronological order. It is also called a *Memorandum Book*.

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